

City of Taylor, Michigan

**Financial Report
with Supplemental Information
June 30, 2008**

City of Taylor, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets (Deficit)	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Balance Sheet to the Statement of Net Assets (Deficit)	15
Statement of Revenue, Expenditures, and Changes in Fund Balances	16
Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenue, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20-21
Fiduciary Funds:	
Statement of Net Assets	22
Statement of Changes in Net Assets	23
Component Units:	
Statement of Net Assets (Deficit)	24
Statement of Activities	25-26
Notes to Financial Statements	27-62
Required Supplemental Information	63
Budgetary Comparison Schedule - General Fund	64
Pension Systems Schedule of Funding Progress	65
Schedule of Employer Contributions	66-67
Note to Required Supplemental Information	68

City of Taylor, Michigan

Contents (Continued)

Other Supplemental Information	69
Nonmajor Governmental Funds:	
Combining Balance Sheet	70-71
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	72-73
Fiduciary Funds:	
Combining Statement of Net Assets	74
Combining Statement of Changes in Net Assets	75
Component Unit - Housing Commission:	
Combining Statement of Net Assets	76
Combining Statement of Changes in Net Assets	77

Independent Auditor's Report

To the City Council
City of Taylor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Taylor, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Taylor Housing Commission (a discretely presented component unit), which reflect total assets of \$41,525,298 at March 31, 2008 and a net increase in net assets of \$549,531 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Commission, is based solely on the report of the other auditors. The other auditors' report, dated December 3, 2008, which includes the information for the Taylor Community Development Corporation (audited by other auditors as of June 30, 2008 with a report date of December 1, 2008), expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the City Council
City of Taylor, Michigan

The management's discussion and analysis, budgetary comparison schedule - General Fund, and the pension systems schedule of funding progress, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Taylor, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008 on our consideration of the City of Taylor, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

December 10, 2008

City of Taylor, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Taylor, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

- State-shared revenue, our second largest revenue source, was approximately the same as 2007, having decreased for the prior six years. The statutory portion, at approximately \$3.23 million, represents a significant amount of at-risk revenue.
- Revenues from the 23rd District Court increased approximately \$1,195,600 over the prior year amount, to approximately \$6.5 million for the year ended June 30, 2008. Police traffic enforcement is the major source of this revenue. Work details are assigned overtime to conduct traffic enforcement. In the past, the officers' pension earnings did not include overtime worked. The previous administration negotiated several enhancements to police officers' and firefighters' pension benefits. The inclusion of overtime earnings as part of the officers' basis for their monthly pension benefit was one of the major enhancements. Because of limits on its ability to increase revenues from other sources, the City continues to increase its reliance on court revenues to finance day-to-day operations. Currently, the City cannot afford to cut back or eliminate the traffic enforcement operations. The cost of police and fire retirement expenses is levied as a special property tax millage. The City's annual contribution for police and fire retiree benefits has increased from \$579,042 in 2002 to \$4,977,904 in 2008, a 760 percent increase. It is essential that the City take the necessary steps to address and drastically reduce this increasing cost to the taxpayers.

In the City's General Fund, the main operating fund of the City, expenditures increased by approximately \$2.3 million compared to 2007, mainly because of increased costs in fringe benefits, gasoline, and capital outlay. Personal services expenditures increased less than .25 percent over 2007, and were approximately \$400,000 less than 2006. Because of the limits on the City's ability to increase revenues, it is imperative that management's focus remains on cost containment. The General Fund fund balance (the cumulative difference between revenues and expenses) remains unacceptably low.

- The City's golf courses operated at deficits, substantially as a result of depreciation of assets donated by the TIFA component unit. The golf courses reduced costs appreciably in order to operate more profitably before the effects of depreciation, and will receive additional assistance from the TIFA in conjunction with a deficit elimination plan. The Sportsplex had historically been operating at a loss. In November 2006, the outside firm managing the complex on behalf of the City was terminated, and the City entered into an arrangement to lease the facility to an unrelated entity. Therefore, the City is no longer subsidizing the operational cost. It is expected, however, that due to current market conditions, the lessee will be requesting some relief from the existing operating agreement with the City. The TIFA will continue to pay the debt service on the Sportsplex.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Total net assets related to the City's governmental activities at the end of the year were approximately \$194 million, a \$32 million increase over the prior year's approximately \$162 million in net assets. The net increase is mainly due to the transfer of the Sportsplex assets of \$27 million to the governmental activity and the sale of cell tower leases for \$2.9 million. Business-type net assets decreased by approximately \$19.4 million from \$113.2 to \$93.8 million, again mainly due to the transfer of the Taylor Sportsplex assets to the governmental activities. Also included is a special item in revenue representing the transfer of debt from the Sportsplex to the TIFA. Without those transfers, net assets would have increased by approximately \$3.4 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Taylor, Michigan's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements - The statement of net assets (deficit) and the statement of activities provide information about the activities of the City on a government-wide basis. They are designed to present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting, similar to a private sector business, so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

Fund Financial Statements - The fund financial statements are presented after the government-wide statements. They present a short-term view, and tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City's General Fund budget and the City's progress in funding its obligation to provide pension benefits to its employees. Other supplemental information is also presented in the form of combining statements for nonmajor governmental funds, fiduciary funds, and the Taylor Housing Commission component unit.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

The City of Taylor as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007:

Summary Condensed Statement of Net Assets (normally presented in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Assets						
Current assets	\$ 23,241,732	\$ 30,962,569	\$ 9,934,198	\$ 12,227,540	\$ 33,175,930	\$ 43,190,109
Noncurrent assets	<u>198,475,083</u>	<u>221,588,357</u>	<u>166,983,098</u>	<u>142,955,947</u>	<u>365,458,181</u>	<u>364,544,304</u>
Total assets	221,716,815	252,550,926	176,917,296	155,183,487	398,634,111	407,734,413
Liabilities						
Current liabilities	19,199,648	18,745,888	7,073,282	7,524,783	26,272,930	26,270,671
Long-term liabilities	<u>40,921,913</u>	<u>40,240,489</u>	<u>56,595,490</u>	<u>53,825,799</u>	<u>97,517,403</u>	<u>94,066,288</u>
Total liabilities	<u>60,121,561</u>	<u>58,986,377</u>	<u>63,668,772</u>	<u>61,350,582</u>	<u>123,790,333</u>	<u>120,336,959</u>
Net Assets						
Invested in capital assets - Net of related debt	156,274,110	180,730,533	94,859,122	73,566,770	251,133,232	254,297,303
Restricted	8,071,209	9,329,014	12,310,074	12,265,745	20,381,283	21,594,759
Unrestricted (deficit)	<u>(2,750,065)</u>	<u>3,505,002</u>	<u>6,079,328</u>	<u>8,000,390</u>	<u>3,329,263</u>	<u>11,505,392</u>
Total net assets	<u>\$ 161,595,254</u>	<u>\$ 193,564,549</u>	<u>\$ 113,248,524</u>	<u>\$ 93,832,905</u>	<u>\$ 274,843,778</u>	<u>\$ 287,397,454</u>

The City's combined net assets totaled \$287,397,454, an increase of 4.6 percent from the prior year. As we look at the governmental activities separately from the business-type activities, we can see that the current level of unrestricted net assets increased by \$6.3 million for our governmental activities. The business-type activities unrestricted net assets increased by \$1.9 million during 2008.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year:

Summary Condensed Income Statement (normally presented in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenue						
Program revenue:						
Charges for services	\$ 14,332,348	\$ 14,826,341	\$ 19,538,805	\$ 17,954,958	\$ 33,871,153	\$ 32,781,299
Operating grants and contributions	8,386,654	9,002,582	-	-	8,386,654	9,002,582
Capital grants and contributions	2,031,942	1,797,954	896,340	423,516	2,928,282	2,221,470
General revenue:						
Property taxes	31,009,816	32,377,347	5,134,240	4,846,974	36,144,056	37,224,321
State-shared revenue	7,805,159	7,804,529	-	-	7,805,159	7,804,529
Unrestricted investment earnings	626,366	790,168	690,976	642,776	1,317,342	1,432,944
Rental income and fees	553,380	762,660	7,764	9,749	561,144	772,409
(Loss) gain on disposal of assets	(110,933)	2,076,688	(10,866)	(1,652)	(121,799)	2,075,036
Miscellaneous revenue	954,278	1,267,072	21,255	735,760	975,533	2,002,832
Special item	-	-	-	4,197,909	-	4,197,909
Total revenue	65,589,010	70,705,341	26,278,514	28,809,990	91,867,524	99,515,331
Program Expenses						
General government	10,565,270	11,188,603	-	-	10,565,270	11,188,603
Public safety	30,580,066	30,789,004	-	-	30,580,066	30,789,004
Public works	13,896,417	16,259,219	-	-	13,896,417	16,259,219
Community and economic development	1,495,559	1,772,535	-	-	1,495,559	1,772,535
Recreation and culture	4,669,113	3,674,822	-	-	4,669,113	3,674,822
Interest on long-term debt	1,948,849	2,102,816	-	-	1,948,849	2,102,816
Water	-	-	6,678,307	6,768,129	6,678,307	6,768,129
Sewer	-	-	7,949,329	8,805,656	7,949,329	8,805,656
Taylor Sportsplex	-	-	1,464,836	-	1,464,836	-
Golf courses	-	-	5,703,739	5,326,900	5,703,739	5,326,900
Ecorse Creek	-	-	801,400	273,931	801,400	273,931
Total program expenses	63,155,274	65,786,999	22,597,611	21,174,616	85,752,885	86,961,615
Transfers	-	27,050,953	-	(27,050,953)	-	-
Change in Net Assets	\$ 2,433,736	\$ 31,969,295	\$ 3,680,903	\$ (19,415,579)	\$ 6,114,639	\$ 12,553,716

Governmental Activities

The City's total governmental revenues were up from \$65.6 million to \$70.7 million, mainly due to the sale of cell-tower leases, increased court revenue, operating grants and contributions, and charges for services. The City's total governmental expenses increased by approximately \$2.6 million, a 4 percent increase over 2007. Again during 2008, the City closely monitored its spending in all areas, including hiring and capital outlay.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water, Sewer, Ecorse Creek, and Golf Courses Enterprise Funds. The City leases the Taylor Sportsplex; therefore, those activities are no longer reported as a business-type and are now included in the governmental activities. The City provides water to residents from the Detroit Water System. The City also provides sewage treatment through a Wayne County-owned and operated sewage treatment plant. The City operates two outstanding golf courses. The Lakes of Taylor Golf Club is a championship caliber golf course designed to challenge golfers at every level. Taylor Meadows Golf Club is a links-style course, challenging yet still player-friendly. Both courses also provide food service and pro-shop operations as well. The Sewer Fund accounts for the activity related to the City's participation in the Downriver Sewer System, including the tax levy mandated to pay for the City's share of debt issued by Wayne County to pay for the recent improvements to the system. The EPA levy is adjusted annually based on debt service for the upcoming year less any credits available at Wayne County. For all business-type activities in 2008, total revenues increased approximately \$2.5 million. Excluding the special item amount of \$4.2 million, total revenues were \$1.7 less than 2007. Total expenses were \$1.4 million less than 2007.

The City of Taylor's Funds

Our analysis of the City's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Taylor as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond projects. The City's only major governmental fund for 2008 is the General Fund.

The General Fund pays for most of the City's governmental services. The most significant are public safety, which incurred expenses of approximately \$21.5 million, and public works, which incurred expenses of \$13.2 million in 2008. Employee benefit expenses accounted for another \$12.8 million.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. Overall, the General Fund's revenue budget was increased during the year by a net amount of approximately \$1,423,000. Overall actual revenues were greater than the budget by approximately \$4 million, or 6.5 percent. Because of the uncertainty of when the \$2.9 million sale of the cell tower leases would close, and because the intended use is to appropriate approximately \$215,000 annually of the proceeds to replace the cell tower lease revenue that will no longer be collected, the City did not budget for it. Similarly, the City did not budget for a transfer in for \$248,500 for a portion of the sale of the Taylor Meadows cell tower lease, nor for the approximately \$413,000 proceeds from an installment loan for three ambulances.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

The City's expenditure budget was increased approximately \$2.8 million by amendments during the year, the first of which was to add \$1.2 million to the budget to align it with the administration's recommended budget. The additional \$1.6 million in amendments through the year were based on conservative estimates of expenses and additions for capital outlay. The City's departments overall stayed below budget, resulting in total expenditures of \$59.2 million (approximately 6 percent) below budget. Of the unexpended amount, approximately \$915,000 in budgeted expenses supported by special tax levies will be carried to 2009 to fund activities related to their specific purpose. In addition, \$1.3 million has been carried over to fund current year operations. The General Fund's unreserved and undesignated fund balance has increased to approximately \$534,000 from approximately \$377,000 in 2007.

Capital Asset and Debt Administration

At the end of 2008, the City, including its component units, had approximately \$391 million (net of depreciation) invested in a broad range of capital assets, including buildings, roads, water and sewer lines, parks, and machinery and equipment. The City finances most of its capital improvements through the issuance of long-term debt. In 2008, the City incurred new debt in the TIFA and DDA Funds in amount of approximately \$200,000, mainly to purchase nonconforming properties, and in the governmental activities funds approximately \$3 million for paving of roads and approximately \$313,000 for the acquisition of three ambulances. In addition, Wayne County issued \$5.5 million in new debt for improvements to the wastewater treatment plant. That debt is included in the City Sewer Fund, a business-type activity.

The City's investment in capital assets, net of related debt, increased from approximately \$251 million to approximately \$254 million. In addition, the component unit's investment in capital assets, net of related debt, increased from approximately \$18.2 million to approximately \$19.2 million. The City's total debt was approximately \$194.3 million, including approximately \$88.6 million of component unit debt. Of the component unit debt, approximately \$6.2 million relates to TIFA debt issued on behalf of the Lakes of Taylor Golf Club, and approximately \$1.9 million relates to TIFA debt issued on behalf of the Sportsplex. The TIFA has recently also been responsible for covering debt service on debt issued by the Taylor Building Authority that the Sportsplex operations have not been able to support. Expected 2008/2009 debt service payments on all long-term obligations exclusive of interest are approximately \$16.5 million for the City and component units in total. The overall debt, while manageable and within legal limits, does limit the flexibility of the City to respond to the future needs of the community.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets

Like most other communities in Michigan, particularly southeast Michigan, the City continues to struggle with providing necessary services with limited revenues. For the fiscal year ending June 30, 2009, the possibility of continuing reductions to the statutory portion of state revenue sharing continues to be a concern. State-shared gas and oil tax distributions that are used for road maintenance and construction also continue to trend downward. Court revenues are expected to level off, if not decrease this year. Health insurance premiums have increased 11 percent this year. The City's contribution to the Police and Fire Retirement System has increased by approximately \$500,000 and by \$242,000 to the General Employees' Retirement System. As of the October 31, 2008 statements, the Police and Fire Retirement System's market value of its portfolio decreased by approximately \$19.4 million since June 30, 2008 and the General Employees' Retirement System market value of its portfolio decreased by approximately \$11.1 million since December 31, 2007. Decreases in market values will result in future increased pension contribution rates. With the decline in market values of properties, the City is estimating a \$500,000 decrease in tax revenue for fiscal year 2009/2010. With the continuing collapse of the housing market, fees and permit revenue will continue to decline. Also because of the housing market collapse, the anticipated tax capture revenues to pay the debt on the Island Lakes (Midtown Basin) bonds are much less than anticipated when the bonds were sold in 2005. Current projections are that the shortfall between taxes captured and debt service that must be paid by the City could range from \$500,000 to \$650,000 annually.

The City and its residents are suffering from the effects of a slowdown in the housing market, which currently leaves many projects incomplete and as eyesores on the landscape of the community. There are record numbers of foreclosures in the community. In November 2007, the City initiated its "Taylor Cares" program by purchasing vacant homes for \$1 each under a federal Department of Housing and Urban Development (HUD) program. The houses will be rehabilitated and then sold to low- to moderate-income persons or families. The City's goal is to take possession of all of the estimated 70 empty HUD homes scattered throughout the City to assist low- to moderate-income persons to become homeowners, reduce blight, and revitalize neighborhoods. The City plans to generate enough revenue from the resale of the homes to cover all of its costs. Any eventual surplus can be used for other community needs in the future. To date, the City has purchased 39 homes, and has rehabilitated and sold 10 of them.

In addition, the City of Taylor has been allocated approximately \$2.5 million through the HUD Neighborhood Stabilization Program. The program provides targeted emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Because of the income-limiting impact of Proposal A, the Headlee Amendment, and the Bolt vs. Lansing decision, the City needs to continue to watch its expenditure budgets very closely. With municipal revenue opportunities systematically limited by state law, the General Fund budget continues to depend on uncertain revenue such as state-shared revenue, cable franchise fees, court fines, and charges for services to remain balanced. Given these strains on the budget, the City understands the need to reduce the workforce and save on personal services and employee benefits, as these are the largest portions of the budget. Approximately 70 percent of the City's General Fund costs are employee-related. Despite reducing the number of employees, limiting wage increases to 1 percent, and implementing co-pay arrangements for health insurance, employee wages and fringe benefits costs increased by \$1.9 million in 2008. The annual contribution to the General Employees' Retirement System has increased from \$0 to \$2,086,320 between 2002 and 2008. The annual contribution to the Police and Fire Retirement System has increased from \$579,042 in 2002 to \$4,977,904 in 2008, a 759.7 percent increase.

As the costs of providing services to the citizens continue to rise in excess of normal inflation despite the systematic limitations on revenue growth, it is clear that the municipal finance system in the state of Michigan needs some changes in addition to changes that can be made at the local level. Such changes are not on the horizon.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances, and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the city clerk's office, 23555 Goddard Road, Taylor, MI 48180.

City of Taylor, Michigan

Statement of Net Assets (Deficit) June 30, 2008

	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and investments (Note 3)	\$ 16,827,310	\$ 8,260,667	\$ 25,087,977	\$ 17,591,571
Receivables - Net:				
Taxes	187,127	-	187,127	-
Special assessments	6,007,648	-	6,007,648	-
Customers	-	3,847,011	3,847,011	-
Other	2,411,155	91,605	2,502,760	1,041,020
Internal balances (Note 6)	367,077	(367,077)	-	-
Due from primary government	-	-	-	220,887
Due from other governmental units	3,632,068	-	3,632,068	4,197
Due from component units	765,509	15,959	781,468	-
Deferred charges	-	-	-	5,883,510
Prepaid costs and other assets	700,131	63,814	763,945	682,774
Long-term advances to (from) other funds (Note 6)	731,628	(731,628)	-	-
Inventories	-	315,561	315,561	-
Restricted assets (Note 8)	3,564,108	11,397,322	14,961,430	2,788,796
Notes receivable and accrued interest	-	-	-	50,000
Unamortized bond issuance costs	64,544	-	64,544	116,072
Nondepreciable capital assets (Note 5)	31,735,820	4,803,523	36,539,343	15,205,323
Depreciable capital assets - Net (Note 5)	185,556,801	127,486,730	313,043,531	26,358,357
Total assets	252,550,926	155,183,487	407,734,413	69,942,507
Liabilities				
Accounts payable	1,366,961	1,551,358	2,918,319	5,338,328
Accrued and other liabilities	3,482,721	871,522	4,354,243	1,868,522
Due to primary government	-	-	-	781,468
Due to component units	220,887	-	220,887	-
Due to other governmental units	206,607	774,656	981,263	244,167
Deferred revenue (Note 4)	6,085,173	-	6,085,173	819,792
Noncurrent liabilities:				
Debt due within one year (Note 7)	7,383,539	4,327,247	11,710,786	4,753,666
Debt due in more than one year (Note 7)	40,240,489	53,825,799	94,066,288	83,816,516
Total liabilities	58,986,377	61,350,582	120,336,959	97,622,459
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	180,730,533	73,566,770	254,297,303	19,219,182
Restricted:				
Construction and other expenditures	4,919,701	-	4,919,701	-
Major and local streets projects	1,027,998	-	1,027,998	-
Police forfeiture	1,524,036	-	1,524,036	-
Debt service	1,857,279	11,397,322	13,254,601	-
Sewer	-	868,423	868,423	-
Component units	-	-	-	5,265,458
Unrestricted	3,505,002	8,000,390	11,505,392	(52,164,592)
Total net assets (deficit)	\$ 193,564,549	\$ 93,832,905	\$ 287,397,454	\$ (27,679,952)

City of Taylor, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 11,188,603	\$ 9,579,641	\$ 2,482,993	\$ 420,061
Public safety	30,789,004	3,957,431	1,936,514	102,666
Public works	16,259,219	247,643	3,978,933	1,229,467
Community and economic development	1,772,535	31,487	496,698	-
Recreation and culture	3,674,822	1,010,139	107,444	45,760
Interest on long-term debt	2,102,816	-	-	-
Total governmental activities	65,786,999	14,826,341	9,002,582	1,797,954
Business-type activities:				
Water	6,768,129	7,006,848	-	-
Sewer	8,805,656	5,982,799	-	-
Taylor Sportsplex	-	32,264	-	-
Golf courses	5,326,900	4,450,922	-	423,516
Ecorse Creek	273,931	482,125	-	-
Total business-type activities	21,174,616	17,954,958	-	423,516
Total primary government	<u>\$ 86,961,615</u>	<u>\$ 32,781,299</u>	<u>\$ 9,002,582</u>	<u>\$ 2,221,470</u>
Component units:				
Local Development Financing Authority	\$ 494	\$ -	\$ -	\$ -
Tax Increment Financing Authority	8,684,836	-	-	20,822
Brownfield Redevelopment Authority	1,690,874	-	-	-
Downtown Development Authority	181,296	-	-	-
Housing Commission	18,382,052	6,526,785	10,870,880	-
Total component units	<u>\$ 28,939,552</u>	<u>\$ 6,526,785</u>	<u>\$ 10,870,880</u>	<u>\$ 20,822</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Rental income and fees				
Gain (loss) on disposal of assets				
Miscellaneous				
Special item				
Transfers				
Total general revenues, special item, and transfers				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year, as restated (Note 1)				
Net Assets (Deficit) - End of year				

Statement of Activities Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ 1,294,092	\$ -	\$ 1,294,092	\$ -
(24,792,393)	-	(24,792,393)	-
(10,803,176)	-	(10,803,176)	-
(1,244,350)	-	(1,244,350)	-
(2,511,479)	-	(2,511,479)	-
(2,102,816)	-	(2,102,816)	-
(40,160,122)	-	(40,160,122)	-
-	238,719	238,719	-
-	(2,822,857)	(2,822,857)	-
-	32,264	32,264	-
-	(452,462)	(452,462)	-
-	208,194	208,194	-
-	(2,796,142)	(2,796,142)	-
(40,160,122)	(2,796,142)	(42,956,264)	-
-	-	-	(494)
-	-	-	(8,664,014)
-	-	-	(1,690,874)
-	-	-	(181,296)
-	-	-	(984,387)
-	-	-	(11,521,065)
32,377,347	4,846,974	37,224,321	13,738,217
7,804,529	-	7,804,529	-
790,168	642,776	1,432,944	762,629
762,660	9,749	772,409	-
2,076,688	(1,652)	2,075,036	61,009
1,267,072	735,760	2,002,832	1,420,478
-	4,197,909	4,197,909	(2,996,262)
27,050,953	(27,050,953)	-	-
72,129,417	(16,619,437)	55,509,980	12,986,071
31,969,295	(19,415,579)	12,553,716	1,465,006
161,595,254	113,248,484	274,843,738	(29,144,958)
\$ 193,564,549	\$ 93,832,905	\$ 287,397,454	\$ (27,679,952)

City of Taylor, Michigan

Governmental Funds Balance Sheet June 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 11,008,487	\$ 5,818,823	\$ 16,827,310
Receivables:			
Taxes	181,197	5,930	187,127
Special assessments	6,007,648	1,488	6,009,136
Other	1,848,862	241,080	2,089,942
Due from other governmental units	2,893,074	738,994	3,632,068
Due from component units	745,526	19,983	765,509
Due from other funds (Note 6)	2,763,654	454,799	3,218,453
Prepaid costs and other assets	686,205	13,926	700,131
Long-term advance to other funds (Note 6)	850,000	-	850,000
Restricted assets (Note 8)	-	3,564,108	3,564,108
Total assets	\$ 26,984,653	\$ 10,859,131	\$ 37,843,784
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 986,625	\$ 380,336	\$ 1,366,961
Due to other governmental units	188,571	18,036	206,607
Due to other funds (Note 6)	1,981,710	869,666	2,851,376
Due to component units	220,772	115	220,887
Due to pension funds	71,721	-	71,721
Accrued and other liabilities	2,801,963	142,106	2,944,069
Deferred revenue (Note 4)	6,961,230	1,486	6,962,716
Long-term advances from other funds (Note 6)	-	118,372	118,372
Total liabilities	13,212,592	1,530,117	14,742,709
Fund Balances			
Reserved for:			
Construction and other expenditures	4,301,541	3,087,272	7,388,813
Long-term assets	850,000	-	850,000
Unreserved:			
Designated for equipment replacement/capital outlay	4,341,065	-	4,341,065
Designated for subsequent year's expenditures -			
Reported in:			
General Fund	3,745,800	-	3,745,800
Special Revenue Funds	-	1,100,400	1,100,400
Unreserved - Reported in:			
General Fund	533,655	-	533,655
Special Revenue Funds	-	3,284,063	3,284,063
Debt Service Funds	-	1,857,279	1,857,279
Total fund balances	13,772,061	9,329,014	23,101,075
Total liabilities and fund balances	\$ 26,984,653	\$ 10,859,131	\$ 37,843,784

City of Taylor, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets (Deficit) June 30, 2008

Fund Balance - Total Governmental Funds	\$ 23,101,075
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Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds	217,292,621
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Special assessment and other receivables are expected to be collected over several years and are not available to pay for current year expenditures	1,197,268
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Unamortized bond issuance costs are not reported in the governmental funds	64,544
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Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Long-term debt	(39,634,790)
Compensated absences	(6,097,564)
Accrued longevity	(282,222)
Bond premium	(1,044,927)
Workers' compensation claims	(564,525)

Accrued interest is not recorded in the funds	<u>(466,931)</u>
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Net Assets - Governmental Activities	<u>\$ 193,564,549</u>
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City of Taylor, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 32,793,147	\$ 1,682,851	\$ 34,475,998
Licenses and permits	957,454	1,264,473	2,221,927
Federal sources	480,587	1,717,228	2,197,815
State sources	8,167,027	4,064,437	12,231,464
Charges for services	2,792,046	-	2,792,046
Fines and forfeitures	6,707,153	-	6,707,153
Interest and rent	1,366,821	3,087,255	4,454,076
DMA/911 revenue	-	1,266,081	1,266,081
Other	11,386,133	397,663	11,783,796
Total revenues	64,650,368	13,479,988	78,130,356
Expenditures			
General government	7,611,797	-	7,611,797
Public safety	21,512,411	-	21,512,411
Public works and capital projects	13,184,554	4,401,679	17,586,233
Community development	-	528,185	528,185
Recreation and cultural	2,697,807	-	2,697,807
General administration	833,593	-	833,593
Construction and development	-	1,864,233	1,864,233
Employee benefits	12,756,903	-	12,756,903
Capital outlay and other	-	663,749	663,749
Debt service	578,080	4,807,239	5,385,319
Total expenditures	59,175,145	12,265,085	71,440,230
Excess of Revenues Over Expenditures	5,475,223	1,214,903	6,690,126
Other Financing Sources (Uses)			
Transfers in (Note 6)	248,500	1,119,994	1,368,494
Transfers out (Note 6)	-	(1,119,994)	(1,119,994)
Proceeds from issuance of debt	-	3,075,000	3,075,000
Debt premium	-	161,371	161,371
Proceeds from installment loans	413,074	-	413,074
Total other financing sources	661,574	3,236,371	3,897,945
Net Changes in Fund Balances	6,136,797	4,451,274	10,588,071
Fund Balances - Beginning of year	7,635,264	4,877,740	12,513,004
Fund Balances - End of year	\$ 13,772,061	\$ 9,329,014	\$ 23,101,075

City of Taylor, Michigan

Governmental Funds Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 10,588,071
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(8,058,738)
Capital contribution from TIFA, DDA, and Ecorse Creek is not a current financial resource	2,242,599
Capital assets transferred to governmental activities due to closing of Taylor Sportsplex are not current financial resources	26,802,453
Proceeds from asset sales are recorded in the governmental funds; on the statement of activities, a loss is recorded	(327,028)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	136,786
Revenue is reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	183,392
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	4,259,176
Amortization of bond premium liabilities and deferred cost of financing are reported as expense on the governmental funds when issued	(276,411)
Amortization of bond issuance costs are reported as an expense on the governmental funds when issued	64,544
Change in accrued interest on long-term debt is not recorded in the governmental funds	(2,048)
The change in liabilities for longevity, compensated absences, and general claims is recorded when incurred in the statement of activities:	
Compensated absences	(266,511)
Longevity	(17,601)
Workers' compensation claims	(24,855)
Bond proceeds are not reported as other financing sources on the statement of activities	(3,488,074)
Change in Net Assets of Governmental Activities	<u>\$ 31,815,755</u>

City of Taylor, Michigan

Proprietary Funds Statement of Net Assets June 30, 2008

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Current Assets						
Cash and investments (Note 3)	\$ 4,703,728	\$ 2,875,787	\$ -	\$ 532,858	\$ 148,294	\$ 8,260,667
Receivables:						
Customers	2,004,166	1,701,718	-	-	141,127	3,847,011
Other	90,726	-	-	879	-	91,605
Due from component units	-	15,959	-	-	-	15,959
Due from other funds (Note 6)	734,782	2,622,554	-	3,220	21,000	3,381,556
Inventories	140,877	6,530	-	168,154	-	315,561
Prepaid costs and other assets	5,881	475	-	-	57,458	63,814
Total current assets	7,680,160	7,223,023	-	705,111	367,879	15,976,173
Noncurrent Assets						
Long-term advances to other funds (Note 6)	118,372	-	-	-	-	118,372
Restricted assets (Note 8)	-	11,397,322	-	-	-	11,397,322
Capital assets (Note 5)	21,082,164	95,027,035	-	16,181,054	-	132,290,253
Total noncurrent assets	21,200,536	106,424,357	-	16,181,054	-	143,805,947
Total assets	28,880,696	113,647,380	-	16,886,165	367,879	159,782,120
Current Liabilities						
Accounts payable	942,622	344,317	-	261,970	2,449	1,551,358
Due to other governmental units	8,433	766,223	-	-	-	774,656
Due to other funds (Note 6)	1,839,871	484,840	-	1,353,200	70,722	3,748,633
Accrued and other liabilities	256,012	476,932	-	418,141	-	1,151,085
Current portion of long-term debt (Note 7)	105,000	4,049,291	-	145,000	-	4,299,291
Total current liabilities	3,151,938	6,121,603	-	2,178,311	73,171	11,525,023
Noncurrent Liabilities						
Long-term advances from other funds (Note 6)	-	-	-	850,000	-	850,000
Long-term debt - Net of current portion (Note 7)	1,125,000	52,299,192	-	150,000	-	53,574,192
Total liabilities	4,276,938	58,420,795	-	3,178,311	73,171	65,949,215
Net Assets						
Invested in capital assets - Net of related debt	19,852,164	38,678,552	-	15,036,054	-	73,566,770
Restricted for debt service	-	11,397,322	-	-	-	11,397,322
Restricted for sewer grant expenditures	-	868,423	-	-	-	868,423
Unrestricted	4,751,594	4,282,288	-	(1,328,200)	294,708	8,000,390
Total net assets	\$ 24,603,758	\$ 55,226,585	\$ -	\$ 13,707,854	\$ 294,708	\$ 93,832,905

City of Taylor, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Operating Revenues						
Water sales	\$ 5,678,618	\$ -	\$ -	\$ -	\$ -	\$ 5,678,618
Sewage disposal services	-	5,721,203	-	-	-	5,721,203
System maintenance charge	-	71,330	-	-	-	71,330
Charges for services	1,337,980	190,266	-	2,369,204	482,125	4,379,575
Sales of merchandise	-	-	-	2,041,718	-	2,041,718
Other	1,930	6,866	32,264	40,000	-	81,060
Total operating revenues	7,018,528	5,989,665	32,264	4,450,922	482,125	17,973,504
Operating Expenses						
Cost of water operations	5,630,035	-	-	-	-	5,630,035
Cost of sewage disposal operations	-	5,554,500	-	-	-	5,554,500
Ecorse Creek user charge system	-	-	-	-	220,085	220,085
Cost of sales	-	-	-	970,122	-	970,122
Operation and maintenance	-	-	-	1,449,852	-	1,449,852
General and administrative	-	-	-	2,055,906	-	2,055,906
Other expenses	-	9,881	-	6,198	53,846	69,925
Depreciation and amortization	1,085,411	1,618,241	-	838,371	-	3,542,023
Total operating expenses	6,715,446	7,182,622	-	5,320,449	273,931	19,492,448
Operating Income (Loss)	303,082	(1,192,957)	32,264	(869,527)	208,194	(1,518,944)
Nonoperating Revenue (Expenses)						
Property taxes	-	4,846,974	-	-	-	4,846,974
Loss on disposal of assets	(1,652)	-	-	-	-	(1,652)
Interest income	185,396	441,440	-	13,053	2,887	642,776
Interest expense	(52,720)	(1,623,034)	-	(6,451)	-	(1,682,205)
Other	-	-	-	727,000	-	727,000
Total nonoperating revenue	131,024	3,665,380	-	733,602	2,887	4,532,893
Net Income (Loss) - Before donated assets and transfers	434,106	2,472,423	32,264	(135,925)	211,081	3,013,949
Capital Contributions						
Donated assets	-	-	-	423,516	-	423,516
Special item	-	-	4,197,909	-	-	4,197,909
Total capital contributions	-	-	4,197,909	423,516	-	4,621,425
Transfers Out (Note 6)	-	-	(26,802,453)	(248,500)	-	(27,050,953)
Change in Net Assets	434,106	2,472,423	(22,572,280)	39,091	211,081	(19,415,579)
Net Assets - Beginning of year, as restated (Note 1)	24,169,652	52,754,162	22,572,280	13,668,763	83,627	113,248,484
Net Assets - End of year	<u>\$ 24,603,758</u>	<u>\$ 55,226,585</u>	<u>\$ -</u>	<u>\$ 13,707,854</u>	<u>\$ 294,708</u>	<u>\$ 93,832,905</u>

City of Taylor, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Cash Flows from Operating Activities						
Receipts from customers	\$ 7,326,019	\$ 6,506,495	\$ -	\$ 4,413,524	\$ 485,795	\$ 18,731,833
Payments to suppliers	(3,248,920)	(4,897,996)	(36,932)	(2,397,443)	(328,940)	(10,910,231)
Payments to employees	(2,601,675)	(650,429)	-	(2,100,714)	-	(5,352,818)
Internal activity - Payments to other funds	(84,715)	(615,562)	-	431,176	(20,938)	(290,039)
Other receipts	1,930	564,530	32,264	40,000	-	638,724
Net cash provided by (used in) operating activities	1,392,639	907,038	(4,668)	386,543	135,917	2,817,469
Cash Flows from Noncapital Financing Activities						
Transfers to other funds	-	-	-	(248,500)	-	(248,500)
Proceeds from cell tower sales	-	-	-	727,000	-	727,000
Net cash provided by noncapital financing activities	-	-	-	478,500	-	478,500
Cash Flows from Capital and Related Financing Activities						
Purchase of capital assets	(121,439)	(12,001)	-	(28,313)	-	(161,753)
Proceeds from sales of capital assets	4,018	-	-	-	-	4,018
Principal and interest paid on capital debt	(142,720)	(129,286)	-	(146,451)	-	(418,457)
Receipts from long-term advances to other funds	100,000	-	-	-	-	100,000
Payments on long-term advances from other funds	-	-	-	(300,000)	-	(300,000)
Payments to the County	-	(4,846,974)	-	-	-	(4,846,974)
Property taxes	-	4,846,974	-	-	-	4,846,974
Net cash used in capital and related financing activities	(160,141)	(141,287)	-	(474,764)	-	(776,192)
Cash Flows from Investing Activities - Interest received on investments	185,396	81,160	-	13,053	2,887	282,496
Net Increase (Decrease) in Cash and Cash Equivalents	1,417,894	846,911	(4,668)	403,332	138,804	2,802,273
Cash and Cash Equivalents - Beginning of year	3,285,834	2,028,876	4,668	129,526	9,490	5,458,394
Cash and Cash Equivalents - End of year	<u>\$ 4,703,728</u>	<u>\$ 2,875,787</u>	<u>\$ -</u>	<u>\$ 532,858</u>	<u>\$ 148,294</u>	<u>\$ 8,260,667</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities						
Operating income (loss)	\$ 303,082	\$ (1,192,957)	\$ 32,264	\$ (869,527)	\$ 208,194	\$ (1,518,944)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	1,085,411	1,618,241	-	838,371	-	3,542,023
Changes in assets and liabilities:						
Receivables	309,421	523,696	-	2,602	3,670	839,389
Due from other funds	(348,817)	(967,059)	-	(3,220)	64,054	(1,255,042)
Due to component units	-	(15,959)	-	-	-	(15,959)
Inventories and other assets	(13,323)	(5,082)	57,121	(5,718)	(57,458)	(24,460)
Accounts payable	9,762	(83,770)	(94,053)	34,447	2,449	(131,165)
Accrued and other liabilities	(216,999)	104,808	-	(44,808)	-	(156,999)
Due to other governmental units	-	573,623	-	-	-	573,623
Due to other funds	264,102	351,497	-	434,396	(84,992)	965,003
Net cash provided by (used in) operating activities	<u>\$ 1,392,639</u>	<u>\$ 907,038</u>	<u>\$ (4,668)</u>	<u>\$ 386,543</u>	<u>\$ 135,917</u>	<u>\$ 2,817,469</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Taylor, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2008

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2008, the City had several noncash transactions with the assets held at Wayne County, including interest earnings of \$360,280, debt payments of \$3,779,165, debt issuances of \$5,524,982, and interest payments of \$1,415,305. The TIFA purchased and donated assets to the Golf Course Fund totaling \$423,516. In addition, the Sportsplex Fund was closed resulting in a contribution to governmental activities and a contribution from TIFA totaling \$26,802,453 and \$4,197,909, respectively.

City of Taylor, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2008

	Pension and Other Employee Benefit Plans*	Agency Funds
Assets		
Cash and equivalents	\$ 12,571,013	\$ 562,051
Investments:		
Corporate bonds	18,846,429	-
U.S. government securities	21,442,771	-
Common and preferred stock	71,534,725	-
Money market	-	727,000
Mutual funds	25,781,196	-
Due from other governmental units	-	174,692
Due from primary government	71,721	-
Other assets	32,368	-
Accrued interest	541,911	-
Total assets	150,822,134	<u><u>\$ 1,463,743</u></u>
Liabilities		
Accounts payable	-	\$ 9,200
Due to other governmental units	-	1,400,381
Tax collections distributable	-	54,162
Total liabilities	-	<u><u>\$ 1,463,743</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 150,822,134</u></u>	

* Balances are as of December 31, 2007 for the General Employees' Pension Plan and as of June 30, 2008 for the Police and Fire Retirement System.

City of Taylor, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008

	Pension and Other Employee Benefit Plans*
Additions	
Investment income (loss):	
Interest and dividends	\$ 4,217,043
Net decrease in fair value of investments	(6,606,071)
Less investment expenses	<u>(473,124)</u>
Net investment loss	(2,862,152)
Contributions:	
Employer	7,064,224
Employee	<u>1,162,151</u>
Total contributions	<u>8,226,375</u>
Total additions - Net of investment expenses	5,364,223
Deductions	
General and administrative	181,991
Benefit payments	<u>13,294,264</u>
Total deductions	<u>13,476,255</u>
Net Decrease in Net Assets	(8,112,032)
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>158,934,166</u>
End of year	<u>\$ 150,822,134</u>

* Balances are as of December 31, 2007 for the General Employees' Pension Plan and as of June 30, 2008 for the Police and Fire Retirement System.

City of Taylor, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2008

	Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Total
Assets						
Cash and investments (Note 3)	\$ 297,777	\$ 9,401,417	\$ 3,102,277	\$ 315,038	\$ 4,475,062	\$ 17,591,571
Accounts receivable	-	-	819,792	-	221,228	1,041,020
Deferred charges	-	-	-	-	5,883,510	5,883,510
Unamortized bond issuance costs	-	-	116,072	-	-	116,072
Due from other governmental units	-	-	-	-	4,197	4,197
Due from primary government	-	220,887	-	-	-	220,887
Prepaid expenses and other assets	-	-	-	-	682,774	682,774
Restricted assets (Note 8)	-	-	-	15,630	2,773,166	2,788,796
Notes receivable and accrued interest	-	-	-	-	50,000	50,000
Capital assets (Note 5)	17,745	12,706,194	77,187	1,327,193	27,435,361	41,563,680
Total assets	315,522	22,328,498	4,115,328	1,657,861	41,525,298	69,942,507
Liabilities						
Accounts payable	-	4,227,222	252,273	5,763	853,070	5,338,328
Deferred revenue (Note 4)	-	-	819,792	-	-	819,792
Due to other governmental units	-	88,577	155,590	-	-	244,167
Due to primary government	6	632,793	146,246	2,423	-	781,468
Tenant security deposits	-	-	-	-	385,693	385,693
Accrued and other liabilities	-	395,044	347,282	53,602	686,901	1,482,829
Long-term debt (Note 7)	-	40,923,400	17,111,035	2,226,283	28,309,464	88,570,182
Total liabilities	6	46,267,036	18,832,218	2,288,071	30,235,128	97,622,459
Net Assets (Deficit)						
Investment in capital assets - Net of related debt	17,745	12,706,194	77,187	1,327,193	5,090,863	19,219,182
Restricted	-	-	-	-	5,265,458	5,265,458
Unrestricted	297,771	(36,644,732)	(14,794,077)	(1,957,403)	933,849	(52,164,592)
Total net assets (deficit)	\$ 315,516	\$ (23,938,538)	\$ (14,716,890)	\$ (630,210)	\$ 11,290,170	\$ (27,679,952)

* Balances are as of March 31, 2008 for the Housing Commission and as of June 30, 2008 for the Taylor Community Development Corp., its component unit.

City of Taylor, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants/Contributions	Capital Grants/Contributions
Local Development Financing Authority - Public works	\$ 494	\$ -	\$ -	\$ -
Tax Increment Financing Authority - Public works	8,684,836	-	-	20,822
Brownfield Redevelopment Authority - Public works	1,690,874	-	-	-
Downtown Development Authority - Public works	181,296	-	-	-
Housing Commission	<u>18,382,052</u>	<u>6,526,785</u>	<u>10,870,880</u>	<u>-</u>
Total component unit activities	<u>\$ 28,939,552</u>	<u>\$ 6,526,785</u>	<u>\$ 10,870,880</u>	<u>\$ 20,822</u>

General revenues:

Capture taxes
 Interest
 Gain on sale of assets
 Special item
 Transfers
 Other

Total general revenues

Change in Net Assets (Deficit)

Net Assets (Deficit) - Beginning of year, as restated (Note I)

Net Assets (Deficit) - End of year

* Balances are as of March 31, 2008 for the Housing Commission and as of June 30, 2008 for the Taylor Community Development Corp., its component unit.

Component Units
Statement of Activities
Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets						
Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Total	
\$ (494)	\$ -	\$ -	\$ -	\$ -	\$ (494)	
-	(8,664,014)	-	-	-	(8,664,014)	
-	-	(1,690,874)	-	-	(1,690,874)	
-	-	-	(181,296)	-	(181,296)	
-	-	-	-	(984,387)	(984,387)	
(494)	(8,664,014)	(1,690,874)	(181,296)	(984,387)	(11,521,065)	
56,049	11,984,640	864,150	833,378	-	13,738,217	
8,484	456,451	138,018	14,236	145,440	762,629	
-	61,009	-	-	-	61,009	
-	(2,996,262)	-	-	-	(2,996,262)	
-	-	186,854	(186,854)	-	-	
-	-	32,000	-	1,388,478	1,420,478	
64,533	9,505,838	1,221,022	660,760	1,533,918	12,986,071	
64,039	841,824	(469,852)	479,464	549,531	1,465,006	
251,477	(24,780,362)	(14,247,038)	(1,109,674)	10,740,639	(29,144,958)	
\$ 315,516	\$ (23,938,538)	\$ (14,716,890)	\$ (630,210)	\$ 11,290,170	\$ (27,679,952)	

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Taylor, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Taylor, Michigan:

Reporting Entity

The City of Taylor, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Presented Component Units - The Taylor Building Authority is governed by a board that is appointed by the mayor. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

The 23rd Judicial District Court is reported within the Trust and Agency Fund. Although it is legally separate from the City, it is reported as if it were part of the primary government because of the fiduciary relationship it has with the City.

Discretely Presented Component Units - The Local Development Financing Authority and the Tax Increment Financing Authority (the "Authorities") were created to promote economic development within a seven-square mile district of the City and are funded primarily by property tax revenue captures. The Authorities are governed by 11-member and 13-member boards, respectively, and are appointed by the mayor and confirmed by the City Council.

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within that district. The DDA's governing body, which consists of 13 members, is appointed by the mayor and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council.

Note I - Summary of Significant Accounting Policies (Continued)

The Brownfield Redevelopment Authority was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the 24-square mile boundary of the City. The Brownfield Redevelopment Authority is funded primarily by property tax revenue captures. The Brownfield Redevelopment Authority is governed by a 13-member board that is appointed by the mayor and confirmed by the City Council.

Separate financial statements for the above discretely presented component units are not prepared.

The Taylor Housing Commission is a nonprofit corporation that was organized under the laws of the State of Michigan to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD). The Taylor Housing Commission operates with a fiscal year ended March 31. The Taylor Housing Commission is governed by a five-member board that is appointed by the mayor and confirmed by the City Council.

The Taylor Community Development Corporation (TCDC) is a nonprofit organization formed by its sole member, the Taylor Housing Commission, to acquire, renovate, and operate certain apartment complexes located within the city of Taylor, Michigan. The City acquired these apartment complexes, now known as the Villages of Taylor (the "Project"), and then donated the complexes to the TCDC. The TCDC is operated by a seven-member board of directors appointed by the Taylor Housing Commission. The TCDC is a component unit of the Taylor Housing Commission.

The Project is operated and regulated by a use agreement with the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project's major program is its Section 8 housing assistance payment agreements with HUD. During the year ended June 30, 2008, rental revenue from HUD totaled \$4,688,252, representing 44 percent of net rental revenue.

A complete financial statement for the Taylor Housing Commission can be obtained at 15270 Plaza South, Taylor, MI 48180.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City's only major governmental fund for June 30, 2008 is the General Fund.

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system.

Taylor Sportsplex Fund - The Taylor Sportsplex Fund accounts for the activity of the Taylor Sportsplex, which primarily is the revenue related to charges for services and rentals along with the expenses of maintaining and operating the Taylor Sportsplex. During the year ended June 30, 2008, this fund was closed.

Golf Courses Fund - The Golf Courses Fund accounts for the activity related to the City's two golf courses, Taylor Meadows and Lakes of Taylor.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

Pension Trust Fund - The Pension Trust Fund accounts for the activities of the City's two defined benefit pension plans, including the Police and Fire Retirement System and the General Employees' Pension Plan. The General Employees' Pension Plan is audited as of December 31, 2007. Therefore, the General Employees' Pension Plan is included in this report as of December 31, 2007. The plans accumulate resources for pension benefit payments to qualified employees.

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City's Agency Funds are its Tax Receiving Fund and the 23rd District Court Fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note I - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales, rentals, and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative and operating expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2007 tax is levied and collectible on July 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled \$1,395,719,124, on which taxes levied consisted of 8.4211 mills for operating purposes, 0.8862 mills for library services, 5.3264 mills for public safety pension, 1.2066 mills for disposal authority, 2.6591 mills for garbage and rubbish services, 0.0357 mills for publicity services, 2.700 mills for the building authority, 3.5563 for EPA debt, and .9601 mills for the Southend Project. This resulted in approximately \$11,800,000 for operating purposes, \$1,200,000 for library services, \$7,400,000 for public safety pension, \$1,700,000 for disposal authority, \$3,700,000 for garbage and rubbish services, \$50,000 for publicity services, \$3,800,000 for the building authority, \$4,800,000 for EPA debt, and \$1,700,000 for the Southend Project. These amounts are recognized in the respective General, Debt Service, and Enterprise Funds financial statements as tax revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Unspent bond proceeds of the Capital Projects Funds and Downtown Development Authority Fund are required to be set aside for construction. In addition, restricted assets also include assets held at Wayne County.

Restricted deposits in the Taylor Housing Commission represent assets held under various bond agreements in a separate account for replacement of property and other project expenditures as approved by the mortgagor. Restricted deposits are held in a separate account and generally are not available for operating purposes. During the year ended June 30, 2008, withdrawals of \$401,007 were taken from the replacement reserve.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10-65 years
Buildings	15-50 years
Sanitary sewer system	15-50 years
Water mains and meters	15-67 years
Improvements other than buildings	20 years
Machinery and equipment	2-20 years
Vehicles	4-10 years
Furniture and fixtures	10-20 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted sources.

Fund Balance/Net Assets - During the year, capital assets were transferred from various funds to governmental activities in order to record them in the proper reporting unit. As a result, various net assets were restated as follows:

Fund	Balance as of July 1, 2007	Restated Balance as of July 1, 2007
Governmental activities	\$ 156,890,183	\$ 161,595,254
Golf Courses Fund	18,032,163	13,668,763
Business-type activities	117,611,884	113,248,484
Downtown Development Authority	(984,179)	(1,109,674)
Tax Increment Financing Authority	(24,564,186)	(24,780,362)
Component units	(28,764,675)	(29,144,958)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers, debt proceeds, bond premiums, and sales of fixed assets have been included in the "revenue" and/or "expenditure" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end. The annual budget is prepared by the city management and adopted by the City Council; subsequent amendments are approved by the City Council.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget process is initiated in January, when the departments are given information and guidelines to assist them in formulating their budget requests. The department heads summarize the departmental appropriation requests and submit them to the mayor on or before March 1. During the month of March, the mayor reviews the appropriation requests, meets with the departments, and puts together the budget. The budget is submitted to the City Council on or before April 1. During the next month, the City Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by resolution no later than May 1.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis level.

The amount of encumbrances outstanding at June 30, 2008 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, there were no expenditures that were in excess of the amounts budgeted.

Fund Deficits - There are no fund deficits on the modified accrual basis at June 30, 2008. The component units are presented on the full accrual basis in the basic financial statements, resulting in deficits on that basis in the Tax Increment Financing Authority, Brownfield Redevelopment Authority, and Downtown Development Authority.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$720,006 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had \$6,802,850 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity; U.S. Treasury bills and U.S. Treasury notes or bonds must mature within one year. The General Employees' Pension Plan does not restrict investment maturities, other than fixed income portfolios which can only be purchased with less than a 20-year maturity. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value	Less than One year	1 to 5 Years	6 to 10 Years	More than 10 Years
General Employees' Pension Plan					
Corporate bonds	\$ 7,854,045	\$ 1,674,106	\$ 4,055,037	\$ 2,124,902	\$ -
U.S. government securities	10,182,245	4,947,351	980,519	4,014,921	239,454
Police and Fire Retirement System					
Corporate bonds	10,992,384	303,078	4,666,225	3,235,089	2,787,992
U.S. government securities	11,260,526	1,623,969	1,352,024	1,816,028	6,468,505

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. The General Employees' Pension Plan's investment policy does not restrict investment ratings, other than convertible securities which should be rated B- or higher at time of purchase and fixed income securities which should be rated BBB- or higher at time of purchase. In addition, asset-backed securities, mortgage-backed securities, and CMOs should be rated AAA at the time of purchase. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment Type	Fair Value				Rating	Rating Organization
	Primary Government	Component Units	Police and Fire Retirement System	General Employees' Pension Plan		
Corporate bonds	\$ -	\$ -	\$ -	\$ 529,975	AAA	S&P
Corporate bonds	-	-	-	1,786,397	AA	S&P
Corporate bonds	-	-	-	64,725	AA-	S&P
Corporate bonds	-	-	-	798,701	A+	S&P
Corporate bonds	-	-	-	1,105,264	A	S&P
Corporate bonds	-	-	-	2,243,912	BBB+	S&P
Corporate bonds	-	-	-	746,339	BBB	S&P
Corporate bonds	-	-	-	578,732	BBB-	S&P
U.S. government securities	-	-	-	3,135,416	NR	N/A
Corporate bonds	-	-	92,082	-	Aa1	Moody's
Corporate bonds	-	-	1,379,037	-	A1	Moody's
Corporate bonds	-	-	673,149	-	A2	Moody's
Corporate bonds	-	-	497,535	-	A3	Moody's
Corporate bonds	-	-	483,243	-	Aa2	Moody's
Corporate bonds	-	-	511,080	-	Aa3	Moody's
Corporate bonds	-	-	3,430,885	-	Aaa	Moody's
Corporate bonds	-	-	281,795	-	B1	Moody's
Corporate bonds	-	-	245,100	-	B2	Moody's
Corporate bonds	-	-	79,838	-	B3	Moody's
Corporate bonds	-	-	178,350	-	Ba1	Moody's
Corporate bonds	-	-	111,013	-	Ba2	Moody's
Corporate bonds	-	-	211,851	-	Ba3	Moody's
Corporate bonds	-	-	870,480	-	Baa1	Moody's
Corporate bonds	-	-	1,151,431	-	Baa2	Moody's
Corporate bonds	-	-	309,947	-	Baa3	Moody's
Corporate bonds	-	-	136,388	-	Caa1	Moody's
Corporate bonds	-	-	349,180	-	Not rated	N/A
U.S. government securities	-	-	3,794,876	-	Not rated	N/A
Bank investment pools	223,040	185,086	-	-	AAA	S&P
Bank investment pools	28,243,484	6,701,947	-	-	Not rated	N/A
Bank investment pools	120,909	159,317	-	-	A1	Moody's

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Declines in Investment Values - Subsequent to year end, the fair value of the City's investment portfolio experienced declines consistent with the general decline in financial markets. The general employee pension system decreased by approximately \$11,147,000 since December 31, 2007 and the police and fire pension system declined by approximately \$19,403,000 since June 30, 2008. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Risks and Uncertainties - The City invests in various securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and the governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue recorded is as follows:

	Unavailable	Unearned	Total
Special assessments	\$ 258,706	\$ 6,085,173	\$ 6,343,879
Grant receivables	31,847	-	31,847
ALS receivables	278,705	-	278,705
Other	308,285	-	308,285
Total	<u>\$ 877,543</u>	<u>\$ 6,085,173</u>	<u>\$ 6,962,716</u>

In addition, the component units have recorded \$819,792 of deferred revenue which relates to unearned grant revenue.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2007 (as adjusted)	Additions *	Disposals	Reclassifications	Balance June 30, 2008
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 21,954,117	\$ 5,969,948	\$ (124,711)	\$ -	\$ 27,799,354
Construction in progress	2,426,384	2,326,390	(160,954)	(655,354)	3,936,466
Subtotal	24,380,501	8,296,338	(285,665)	(655,354)	31,735,820
Capital assets being depreciated:					
Roads and sidewalks	233,756,995	629,033	-	-	234,386,028
Buildings and improvements	63,620,588	22,930,842	(12,500)	52,332	86,591,262
Other improvements	16,872,550	666,806	-	603,022	18,142,378
Machinery and equipment	32,433,210	2,108,064	(454,552)	-	34,086,722
Subtotal	346,683,343	26,334,745	(467,052)	655,354	373,206,390
Accumulated depreciation:					
Roads and sidewalks	128,710,279	4,725,151	-	-	133,435,430
Buildings and improvements	16,501,420	4,632,980	(1,521)	-	21,132,879
Other improvements	8,879,019	1,058,767	-	-	9,937,786
Machinery and equipment	20,339,791	3,227,871	(424,168)	-	23,143,494
Subtotal	174,430,509	13,644,769	(425,689)	-	187,649,589
Net capital assets being depreciated	172,252,834	12,689,976	(41,363)	655,354	185,556,801
Net capital assets	\$ 196,633,335	\$ 20,986,314	\$ (327,028)	\$ -	\$ 217,292,621

* Disposals include assets transferred from Taylor Sportsplex Fund to Governmental Activities as a result of the fund closing.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2007 (as adjusted)	Additions	Disposals *	Reclassifications	Balance June 30, 2008
Capital assets not being depreciated:					
Land	\$ 10,403,124	\$ -	\$ (5,644,752)	\$ -	\$ 4,758,372
Construction in progress	-	45,151	-	-	45,151
Subtotal	10,403,124	45,151	(5,644,752)	-	4,803,523
Capital assets being depreciated:					
Land improvements	8,727,545	451,828	(596,025)	-	8,583,348
Machinery and equipment	4,446,062	69,356	(1,225,496)	(283)	3,289,639
Buildings and building improvements	32,217,854	-	(22,721,066)	-	9,496,788
Vehicles	585,260	4,075	(22,326)	-	567,009
Sanitary sewer system	107,366,493	5,524,982	-	-	112,891,475
Water mains and meters	33,105,259	13,674	(6,012)	-	33,112,921
Furniture and fixtures	1,308,215	1,185	-	283	1,309,683
Subtotal	187,756,688	6,065,100	(24,570,925)	-	169,250,863
Accumulated depreciation:					
Land improvements	5,052,439	405,680	(173,840)	-	5,284,279
Machinery and equipment	2,045,258	324,114	(515,082)	-	1,854,290
Buildings and building improvements	4,805,274	206,448	(2,695,964)	-	2,315,758
Vehicles	444,741	38,385	(16,656)	-	466,470
Sanitary sewer system	16,916,200	1,499,806	-	-	18,416,006
Water mains and meters	11,497,854	997,217	(6,012)	-	12,489,059
Furniture and fixtures	867,898	70,373	-	-	938,271
Subtotal	41,629,664	3,542,023	(3,407,554)	-	41,764,133
Net capital assets being depreciated	146,127,024	2,523,077	(21,163,371)	-	127,486,730
Net capital assets	\$ 156,530,148	\$ 2,568,228	\$ (26,808,123)	\$ -	\$ 132,290,253

* Disposals include assets transferred from Taylor Sportsplex Fund to Governmental Activities as a result of the fund closing.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

The component unit capital assets are composed of the following:

	L DFA	TIFA	BRDA	DDA	Housing Commission	Total
Capital assets not being depreciated:						
Land	\$ 17,745	\$ 12,706,194	\$ 77,187	\$ 1,327,193	\$ 760,000	\$ 14,888,319
Construction in progress	-	-	-	-	317,004	317,004
Subtotal	17,745	12,706,194	77,187	1,327,193	1,077,004	15,205,323
Capital assets being depreciated:						
Land improvements	-	-	-	-	6,592,153	6,592,153
Vehicles, machinery, and equipment	-	-	-	-	6,241,811	6,241,811
Building	-	-	-	-	31,956,692	31,956,692
Subtotal	-	-	-	-	44,790,656	44,790,656
Accumulated depreciation	-	-	-	-	(18,432,299)	(18,432,299)
Net capital assets being depreciated	-	-	-	-	26,358,357	26,358,357
Net capital assets	<u>\$ 17,745</u>	<u>\$ 12,706,194</u>	<u>\$ 77,187</u>	<u>\$ 1,327,193</u>	<u>\$ 27,435,361</u>	<u>\$ 41,563,680</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 1,016,083
Public safety	1,950,176
Public works	5,738,985
Economic development	209,392
Recreation and culture	4,730,133

Total governmental activities \$ 13,644,769

Business-type activities:

Water	\$ 1,085,411
Sewer	1,618,241
Golf	838,371

Total business-type activities \$ 3,542,023

Component unit activities -

Housing Commission	\$ 1,861,607
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City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Water Fund	\$ 569,418
	Sewer Fund	269,952
	Golf Courses Fund	1,353,200
	Ecorse Creek Fund	3,855
	Other nonmajor governmental funds	<u>567,229</u>
	Total General Fund	2,763,654
Other nonmajor governmental funds	General Fund	221,894
	Sewer Fund	47,447
	Other nonmajor governmental funds	<u>185,458</u>
	Total nonmajor governmental funds	454,799
Water Fund	General Fund	450,362
	Sewer Fund	167,441
	Other nonmajor governmental funds	<u>116,979</u>
	Total Water Fund	734,782
Sewer Fund	General Fund	1,306,234
	Water Fund	1,249,453
	Ecorse Creek	<u>66,867</u>
	Total Sewer Fund	2,622,554
Golf Courses Fund	General Fund	3,220
Ecorse Creek	Water Fund	<u>21,000</u>
	Total	<u><u>\$ 6,600,009</u></u>

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Receivable Fund	Payable Fund	Amount
Advances to/from Other Funds		
General Fund	Golf Courses Fund	\$ 850,000
Water Fund	Other nonmajor governmental funds	118,372

The advance from the General Fund will be repaid based on an established payment plan to be funded by anticipated revenue from the golf courses over the next two years. The advance from the Water Fund will be repaid over the next four years.

Interfund Transfers

Fund Providing Resources	Fund Receiving Resources	Amount
Golf Courses Fund	General Fund	\$ 248,500
Other nonmajor governmental funds	Other nonmajor governmental funds	1,119,994
	Total	<u>\$ 1,368,494</u>

Transfers between other nonmajor governmental funds were mainly between the City's two street funds to redistribute Act 51 revenue from the Major Streets Fund to the Local Streets Fund where the funds were utilized for budgeted activities. The transfer from the Golf Courses Fund to the General Fund was for proceeds from the sale of cell towers.

Fund Providing Resources	Fund Receiving Resources	Amount
Taylor Sportsplex Fund	Governmental activities	\$ 26,802,453

The transfer from the Taylor Sportsplex Fund to governmental activities was due to the closing of the Taylor Sportsplex Fund in the current year. The above transfer was out of the Taylor Sportsplex Fund to the governmental activities at the government-wide level.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Beginning Balance	Additions	Reductions	Transfers	Ending Balance	Due Within One Year
Governmental Activities							
Bonds and contractual obligations:							
2001 Certificates of Participation - Honeywell Project - Amount of issue - \$4,125,000	4.1%-5.0%	\$ 1,845,000	\$ -	\$ 430,000	\$ -	\$ 1,415,000	\$ 450,000
2001 Installment Purchase Agreement - Downriver Mutual Aid E911 - Amount of issue - \$7,250,000	6.45%	3,120,600	-	807,382	-	2,313,218	861,700
2004 Michigan Transportation Refunding Bonds - Amount of issue - \$1,220,000	3.25%-3.5%	630,000	-	310,000	-	320,000	320,000
Building Authority Bonds - Series 2000 - Amount of issue - \$10,475,000	4.75%-6.0%	3,985,000	-	575,000	-	3,410,000	605,000
2003 Building Authority Refunding Bonds - Amount of issue - \$2,570,000	2.75%-3.0%	915,000	-	450,000	-	465,000	465,000
Building Authority Public Facilities Bonds - Series 2003 - Amount of issue - \$13,750,000	2.5%-5.0%	12,200,000	-	540,000	-	11,660,000	555,000
Road loan - State Infrastructure Bank (SIB) - Racho Road - Amount of issue - \$260,000	4.0%	60,990	-	29,571	-	31,419	31,419
2004 Building Authority Public Facilities Bonds - Amount of issue - \$1,250,000	2.0%-4.75%	1,155,000	-	50,000	-	1,105,000	50,000
General Obligation Bonds - Series 2004 - Storm - Amount of issue - \$945,000	3.5%-4.4%	655,000	-	45,000	-	610,000	45,000
2005 Building Authority Public Facilities Bonds - Amount of issue - \$14,795,000	3.0%-5.0%	12,750,000	-	920,000	-	11,830,000	980,000
2005 Building Authority Refunding Bonds - Amount of issue - \$3,445,000	5.0%	3,401,600	-	-	-	3,401,600	-
2008 Ambulance Lease - Amount of issue - \$313,074	4.38%	-	313,074	-	-	313,074	57,365
2008 Michigan Transportation Fund Bonds - Amount of issue - \$3,075,000	3.25%-5.25%	-	3,075,000	-	-	3,075,000	250,000
JPM Investment LLC land contract	7.0%	-	-	50,000	100,000	50,000	50,000
Ecorse Creek Pollution Abatement Drain Note, 2004 - Amount of issue - \$249,642	3.59%	98,739	-	50,301	-	48,438	48,438
2007 Pitney Bowes Mailing Machine - Amount of issue - \$10,714	9.50%	8,966	-	1,922	-	7,044	2,124
Deferred costs of financing		(466,670)	-	(46,667)	-	(420,003)	(46,667)
Other long-term obligation:							
Accrued longevity		264,621	17,601	-	-	282,222	282,222
Workers' compensation claims		539,670	24,855	-	-	564,525	319,708
Bond premium		968,723	152,974	76,770	-	1,044,927	88,930
Compensated absences		5,831,053	2,450,211	2,183,700	-	6,097,564	1,968,300
Total governmental activities		\$ 47,963,292	\$ 6,033,715	\$ 6,472,979	\$ 100,000	\$ 47,624,028	\$ 7,383,539

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

	Interest Rate Range	Beginning Balance	Additions	Reductions	Transfers	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds:							
Building Authority Bonds - Series 2000 - Amount of issue - \$5,525,000	4.75%-6.0%	\$ 2,235,000	\$ -	\$ -	\$ (2,235,000)	\$ -	\$ -
2005 Building Authority Refunding Bonds - Amount of issue - \$1,870,000	5.0%	1,913,400	-	-	(1,913,400)	-	-
General Obligation Bonds - Series 2004 - Water and Sewer - Amount of issue - \$1,655,000	3.5%-4.4%	1,525,000	-	105,000	-	1,420,000	105,000
1994 Downriver Sewage Disposal System Bonds - Amount of issue - \$87,367,763	Various	54,412,666	5,524,982	3,779,165	-	56,158,483	4,049,291
Municipal Purchase Agreement - Amount of issue - \$563,520	3.58%	435,000	-	140,000	-	295,000	145,000
Other long-term obligation - Compensated absences		511,146	-	231,583	-	279,563	27,956
Total business-type activities		\$ 61,032,212	\$ 5,524,982	\$ 4,255,748	\$ (4,148,400)	\$ 58,153,046	\$ 4,327,247
Component Units							
TIFA Bonds - 2000-A HUD Section 108 Loan - Senior Activities Center - Amount of issue - \$1,500,000	Various	\$ 780,000	\$ -	\$ 120,000	\$ -	\$ 660,000	\$ 120,000
Tax Increment Bonds - Series 1998 Refunding - Amount of issue - \$19,570,000	4.65%-4.85%	8,145,000	-	1,895,000	-	6,250,000	1,990,000
Land contract - Alert Kennel	6.0%	675,000	-	100,000	-	575,000	100,000
Tax Increment Bonds - Series 2001 - Amount of issue - \$36,000,000	4.1%-5.5%	30,865,000	-	1,250,000	-	29,615,000	1,355,000
JPM Investment LLC land contract	7.0%	100,000	-	-	(100,000)	-	-
Sportsplex Building Authority Bonds - Series 2000 - Amount of issue - \$5,525,000	4.65%-5.125%	-	-	325,000	2,235,000	1,910,000	340,000
2005 Building Authority Refunding Bonds - Amount of issue - \$1,870,000	5.0%	-	-	-	1,913,400	1,913,400	-
Total TIFA		40,565,000	-	3,690,000	4,048,400	40,923,400	3,905,000
Brownfield Redevelopment Tax Increment Bonds, tax exempt - Series 2006 - Amount of issue - \$3,100,000	5.4%-6.0%	3,005,000	-	75,000	-	2,930,000	80,000
Brownfield Redevelopment Tax Increment Bonds, tax exempt - Series 2005 - Amount of issue - \$11,080,000	3.625%-5.00%	11,080,000	-	-	-	11,080,000	-
Brownfield Redevelopment Tax Increment Bonds, taxable Series 2005 - Amount of issue - \$3,080,000	4.40%-5.30%	3,080,000	-	-	-	3,080,000	-
Other long-term obligation - Bond premium		22,114	-	1,080	-	21,034	1,079
Total Brownfield		17,187,114	-	76,080	-	17,111,034	81,079
DDA Bonds - Downtown Development Bond - Series 2002 - Amount of issue - \$2,500,000	3.75%-4.7%	2,125,000	-	175,000	-	1,950,000	180,000
Condor Lofts land contract	8%	114,426	-	38,142	-	76,284	38,142
Finish Line Car Wash land contract	7%	-	200,000	-	-	200,000	100,000
Total DDA		2,239,426	200,000	213,142	-	2,226,284	318,142
Housing Commission - Bonds and mortgage payable	Various	29,057,956	13,015	761,507	-	28,309,464	449,445
Total component units		\$ 89,049,496	\$ 213,015	\$ 4,740,729	\$ 4,048,400	\$ 88,570,182	\$ 4,753,666
Total City debt		\$ 198,045,000	\$ 11,771,712	\$ 15,469,456	\$ -	\$ 194,347,256	\$ 16,464,452

Note 7 - Long-term Debt (Continued)

Component Unit Debt

The Housing Commission's debt represents the debt owed by its component unit, the TCDC. The debt represents \$24,275,000 of MSHDA bonds, a mortgage loan, and commercial loans payable. The debt is comprised mainly of Michigan State Housing Development Authority (MSHDA) Limited Obligation Multifamily Housing Revenue Bonds, Series 2003A (the "Bonds"). In 2002, the TCDC formed three single-member limited liability companies, of which the TCDC is the sole member. The Ponds of Taylor Limited Dividend Housing Association LLC (the "Ponds"), The Parks of Taylor Limited Dividend Housing Association LLC (the "Parks"), and the Courtyards of Taylor Limited Dividend Housing Association LLC (the "Courtyards") were formed with their sole assets to be those of each corresponding apartment complex. On this same date, the Parks, Ponds, and Courtyards entered into agreements to issue the MSHDA bonds and to obtain taxable supplemental real estate loans.

The Bonds have a tax-exempt variable interest rate that is determined weekly based on the remarketing agent's submitting the Bonds to the market for bidding. During the audit period, the weekly interest rate fluctuated and averaged approximately 3.05 percent (APR). The interest on the three bonds is due monthly, and they also have principal reserve (sinking fund) requirements. These requirements began on September 15, 2002 for one of the bonds and will begin on September 15, 2009 and September 15, 2013 for the remaining two. The interest rate on the taxable loans is fixed throughout the term. Their principal and interest payment is also paid monthly. The respective loans are secured by all of the assets of each respective LLC.

The fair value of the Bonds and commercial loans payable is estimated based on the current rates offered to the TCDC for debt of the same remaining maturities. At June 30, 2008, the fair value of the Bonds approximates the amounts recorded in the financial statements.

In September 2004, the TCDC obtained a commercial mortgage with a bank for \$2,500,000 in order to finance the demolition of the Springs Apartment buildings. The mortgage requires monthly payments of \$14,603 including interest of 5.68 percent per annum until October 1, 2013, when the remaining unpaid principal balance is due. The balance outstanding on this mortgage at June 30, 2008 was \$2,372,935.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 4,771,046	\$ 1,754,103	\$ 6,525,149	\$ 4,299,291	\$ 1,578,980	\$ 5,878,271	\$ 4,752,587	\$ 3,918,151	\$ 8,670,738
2010	4,036,920	1,578,394	5,615,314	4,408,797	1,465,854	5,874,651	5,261,301	3,682,845	8,944,146
2011	3,856,876	1,388,242	5,245,118	4,370,548	1,351,954	5,722,502	5,739,626	3,419,912	9,159,538
2012	2,940,237	1,224,321	4,164,558	4,481,833	1,237,165	5,718,998	8,080,673	5,799,695	13,880,368
2013	3,113,114	1,086,284	4,199,398	4,606,850	1,118,436	5,725,286	3,200,000	2,206,674	5,406,674
2014-2018	15,181,600	3,070,393	18,251,993	23,612,672	3,724,077	27,336,749	22,099,023	10,942,668	33,041,691
2019-2023	5,075,000	875,485	5,950,485	9,984,881	1,071,405	11,056,286	18,402,356	5,813,284	24,215,640
2024-2028	1,080,000	26,881	1,106,881	2,108,611	261,932	2,370,543	12,499,037	2,950,661	15,449,698
2029-2033	-	-	-	-	-	-	7,519,545	963,583	8,483,128
2034-2037	-	-	-	-	-	-	995,000	49,750	1,044,750
Total	\$ 40,054,793	\$ 11,004,103	\$ 51,058,896	\$ 57,873,483	\$ 11,809,803	\$ 69,683,286	\$ 88,549,148	\$ 39,747,223	\$ 128,296,371

In conjunction with the issuances of \$19,570,000 and \$36,000,000 of Tax Increment Financing Authority (TIFA) bonds Series 1998 and 2001, respectively, the component unit is required to maintain debt service reserves in the amounts of \$625,000 and \$3,448,681, respectively. In order to cover the reserve requirement, the TIFA component unit has obtained insurance coverage totaling \$5,310,681 for this purpose. In addition to the reserves and in conjunction with the above debt issues, the City has agreed to certain covenants, including, but not limited to, restriction on amendments to the TIFA plan districts and continued compliance with the State of Michigan regulations and statutes affecting the TIFA bond indenture.

Defeased Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2008, the City's portion of bonds outstanding that is considered defeased approximates \$16,745,000 for governmental activities and \$6,275,000 for component units.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

No Commitment Debt - Excluded from long-term debt are bonds issued under the Economic Development Corporation Act of 1974, as amended, which authorizes the formation of economic development corporations and their participation in economic development projects in the City. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities	Component Units
Unspent bond proceeds and related interest	\$ 3,058,039	\$ -	\$ 15,630
Assets held at Wayne County for future debt payments	-	10,044,188	-
Assets held at Wayne County for sewer operations	-	1,353,134	-
Restricted deposits - Cash	506,069	-	48,712
Restricted deposits held by lender	-	-	2,724,454
Total restricted assets	<u>\$ 3,564,108</u>	<u>\$ 11,397,322</u>	<u>\$ 2,788,796</u>

The above contractual obligations to the County are the result of the county issuance of bonds on the City's behalf. The City has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay \$795,930 of the obligations; in addition, it has pledged to raise property taxes, to the extent permitted by law, to fund \$55,357,033 of the obligation to repay the County. Proceeds from the County bonds provided financing for the construction of the expansion of the Downriver Wastewater Treatment Plant and System. The remaining principal and interest to be paid on the revenue bonds is \$133,242,155. During the current year, net revenues of the system were \$2,472,423 and there were no annual debt requirements. Annual tax collections related to the debt were \$4,845,619 compared to the annual debt requirements of \$5,300,535.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical and property claims and for risk related to torts and errors and omissions and is uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2008</u>	<u>2007</u>
Unpaid claims - Beginning of year	\$ 539,670	\$ 295,017
Incurred claims - Including claims incurred but not reported	(294,755)	(96,957)
Claim payments	<u>319,610</u>	<u>341,610</u>
Unpaid claims - End of year	<u>\$ 564,525</u>	<u>\$ 539,670</u>

Total tax collections received in the current year were \$4,845,619 compared to principal and interest payments of \$5,300,535 on the related debt.

Note 10 - Defined Benefit Pension Plan

Plan Description

Police and Fire Retirement System - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administered by the City of Taylor, Michigan; this plan covers almost all police and fire employees of the City. The system provides retirement disability and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of 191 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 183 current active employees. The plan does not issue a separate financial report.

Note 10 - Defined Benefit Pension Plan (Continued)

General Employees' Pension Plan - The General Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City of Taylor, Michigan; this plan covers all employees other than court and police and fire employees. The system provides retirement disability and death benefits to plan members and their beneficiaries. At December 31, 2007, the date of the most recent actuarial valuation, membership consisted of 195 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 147 current active employees. The plan does not issue a separate financial report.

Municipal Employees' Retirement System of Michigan - The City also participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all 23rd District Court employees of the City. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

Police and Fire Retirement System, General Employees' Pension Plan, and Municipal Employees' Retirement System of Michigan - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates.

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

Police and Fire Retirement System - For the year ended June 30, 2008, the City's contribution of approximately \$4,978,000 equaled the annual pension cost. The annual required contribution was determined as part of an actuarial valuation at June 30, 2006 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.6 percent per year compounded annually, of which 5.0 percent is attributable to inflation, (b) projected salary increases of 5.0 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.1 percent to 3.0 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 20 years.

General Employees' Pension Plan - For the year ended December 31, 2007, the City's annual pension cost of approximately \$2,086,000 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005 using the aggregate cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, of which 2.5 percent is attributable to inflation, (b) projected salary increases of 2.5 percent per year compounded annually, attributable to inflation, and (c) no postretirement benefit increases. The actuarial value of assets was determined based on market value. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period.

Note 10 - Defined Benefit Pension Plan (Continued)

Municipal Employees' Retirement System of Michigan - For the year ended June 30, 2008, the City's actual pension cost of \$47,383 was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005 using the entry age normal cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, 4.5 percent attributable to inflation, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Reserves

As of June 30, 2008, the plans' legally required reserves have been fully funded as follows:

Police and Fire Retirement System:

Reserve for employees' contributions	\$ 6,883,134
Reserve for retired benefit payments	92,148,306

General Employees' Pension Plan - Reserve for employees' contributions

4,832,825

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan (Continued)

Three-year trend information for the Police and Fire Retirement System is as follows:

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 4,978,000	\$ 4,023,000	\$ 2,943,000
Percentage of APC contributed	100.0%	100.0%	100.0%
	Calendar Year Ended June 30		
	2007	2006	2005
Actuarial value of assets*	\$105.3	\$100.0	\$99.0
Actuarial accrued liability (AAL) (entry age)*	\$138.9	\$132.7	\$123.4
Unfunded AAL (UAAL)*	\$33.6	\$32.7	\$24.4
Funded ratio	75.8%	75.3%	80.2%
Covered payroll*	\$14.3	\$13.4	\$12.6
UAAL as a percentage of covered payroll	236.0%	242.9%	193.6%

*Dollar amounts in millions

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 10 - Defined Benefit Pension Plan (Continued)

Three-year trend information for the General Employees' Pension Plan is as follows:

	Year Ended December 31		
	2007	2006	2005
Annual pension cost (APC)	\$ 2,086,000	\$ 1,509,000	\$ 1,123,000
Percentage of APC contributed	100.0%	100.0%	100.0%
	Calendar Year Ended June 30		
	2007	2006	2005
Actuarial value of assets*	\$51.6	\$49.4	\$52.8
Actuarial accrued liability (AAL)			
(entry age)*	\$67.4	\$64.8	\$52.8
Unfunded AAL (UAAL)*	\$15.8	\$15.4	-
Funded ratio	77.0%	76.0%	100.0%
Covered payroll*	\$8.1	\$8.4	\$10.1
UAAL as a percentage of covered payroll	195.1%	183.3%	-

*Dollar amounts in millions

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan (Continued)

Three-year trend information for the Municipal Employees' Retirement System of Michigan is as follows:

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 47,383	\$ 35,199	\$ 39,895
Percentage of APC contributed	100.0%	100.0%	100.0%
	Calendar Year Ended December 31		
	2007	2006	2005
Actuarial value of assets	\$ 2,256,579	\$ 2,067,013	\$ 1,883,048
Actuarial accrued liability (AAL)			
(entry age)	\$ 2,346,592	\$ 2,153,277	\$ 1,993,216
Unfunded AAL (UAAL)	\$ 90,013	\$ 86,264	\$ 110,168
Funded ratio	96.2%	96.0%	94.5%
Covered payroll	\$ 720,939	\$ 707,263	\$ 690,327
UAAL as a percentage of covered payroll	12.49%	12.20%	16.00%

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan (Continued)

Financial Statement Information

As of June 30, 2008, the statement of net assets for the pension plan is as follows:

	Trust Funds		
	Pension and Other Employee Benefit Plans		
	General		Total
	Police and Fire Retirement System	Employees' Pension Plan*	
Assets			
Cash and equivalents	\$ 9,763,748	\$ 2,807,265	\$ 12,571,013
Investments:			
Corporate bonds	10,992,384	7,854,045	18,846,429
U.S. government securities	11,260,526	10,182,245	21,442,771
Common and preferred stock	41,142,511	30,392,214	71,534,725
Mutual funds	25,781,196	-	25,781,196
Other assets	-	32,368	32,368
Due from primary government	64,594	7,127	71,721
Accrued interest	304,089	237,822	541,911
Total assets	\$ 99,309,048	\$ 51,513,086	\$ 150,822,134
Net Assets - Held in trust for pension and other employee benefits	\$ 99,309,048	\$ 51,513,086	\$ 150,822,134

* Balances are as of December 31, 2007

City of Taylor, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2008, the statement of changes in net assets for the pension plan is as follows:

	Police and Fire Retirement System	General Employees' Pension Plan*	Total
Additions			
Investment income (loss):			
Interest and dividends	\$ 2,684,893	\$ 1,532,150	\$ 4,217,043
Net (decrease) increase in fair value of investments	(9,570,738)	2,964,667	(6,606,071)
Less investment expenses	(196,987)	(276,137)	(473,124)
Net investment (loss) income	(7,082,832)	4,220,680	(2,862,152)
Contributions:			
Employer	4,977,904	2,086,320	7,064,224
Employee	736,306	425,845	1,162,151
Total contributions	5,714,210	2,512,165	8,226,375
Total additions - Net of investment expenses	(1,368,622)	6,732,845	5,364,223
Deductions			
General and administrative	66,868	115,123	181,991
Benefit payments	8,471,790	4,822,474	13,294,264
Total deductions	8,538,658	4,937,597	13,476,255
Net (Decrease) Increase in Net Assets	(9,907,280)	1,795,248	(8,112,032)
Net Assets Held in Trust for Pension and Other Employee Benefits			
Beginning of year	109,216,328	49,717,838	158,934,166
End of year	<u>\$ 99,309,048</u>	<u>\$ 51,513,086</u>	<u>\$ 150,822,134</u>

* Balances are as of December 31, 2007

Note 11 - Defined Contribution Plan

The City provides benefits to recently hired employees that are not eligible for the defined benefit plans through a defined contribution plan established July 1, 2003. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of hire. As established by various collective bargaining agreements, the employees are permitted to contribute up to 4 percent of their pretax earnings, and up to 25 percent of their after-tax earnings. The City contributes between 25 percent and 200 percent of no greater than 4 percent of the employee contributions as an employer match. Employee contributions are immediately vested. Earnings and the employer match are fully vested after five years of service.

The City's total payroll during the current year was \$28,448,526. The current year contribution was calculated based on covered payroll of \$1,862,607, resulting in an employer contribution of \$85,659 and employee contributions of \$74,504.

Note 12 - Contingent Liabilities

The City has been named as a defendant in numerous claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. The various proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability at June 30, 2008.

The City has also been named as a defendant in a lawsuit involving the reimbursements of costs involving the relocation of utility structures as a part of the reconstruction of Telegraph Road. As of December 10, 2008, the City and DTE had reached a settlement requiring the City to pay \$3,000,000 to DTE by December 31, 2008.

The City receives numerous federal grants. Each grant has compliance requirements which are subject to review by the granting agency before the grant is closed. The City has been contacted by the Environmental Protection Agency that there may be questioned costs in the amount of approximately \$190,000 related to the Brownfield Cleanup Revolving Loan Pilot CFDA #66.811.

The City is part of the Downriver Sewage Disposal System (DSDS). In fiscal year 2009, the DSDS expects to issue revenue bonds for which the City's portion will be approximately \$5,900,000.

Note 12 - Contingent Liabilities (Continued)

In 2005, the City issued Brownfield Redevelopment Tax Increment bonds in the amount of \$14,160,000. The plan for payment on the bonds was to use the tax revenue captured from the building of approximately 200 residential homes. Due to current economic conditions, the development and sale of the homes are not occurring at the anticipated rate. As a result, the City will most likely need to draw on a \$1,500,000 letter of credit issued by a bank and paid for by the developer, in the future in order to compensate for the shortfall in revenue. If there is any additional shortfall, the City will be required to subsidize the repayment of the loan.

Construction Commitments - The City has active construction projects at year end. At year end, the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Street projects:		
Component units	\$ 1,415,479	\$ 1,521,214
Primary government	108,228	2,872,935
Component unit - Land improvements	<u>11,523,807</u>	<u>830,793</u>
Total	<u>\$ 13,047,514</u>	<u>\$ 5,224,942</u>

Note 13 - Other Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 387 retirees are eligible, including 28 Water and Sewer Commission employees. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$4,161,000 paid out of the General Fund and approximately \$352,000 for Water and Sewer Commission retirees, which was reimbursed to the General Fund out of that Enterprise Fund.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions).

Note 13 - Other Postemployment Benefits (Continued)

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 14 - Use Agreement

The TCDC and HUD entered into a use agreement that contains restrictions governing the operations of the Villages of Taylor. The use agreement requires the TCDC to make certain renovations specified in the *Application for Transfer of Physical Assets* submitted to HUD on March 12, 1998, maintain a replacement reserve with its mortgagor, relocate tenants as agreed, and to rent 77 percent of the project's units in accordance with affordability restrictions until September 1, 2012. In addition, the use agreement contains restrictions on the amount of rental charges and distributions.

The use agreement requires allocation of any distribution of income from operations or upon the sale of individual units as follows:

- Repayment of the National City Bank mortgage loan
- Repayment of the City's equity investment of \$17,633,330 plus 6 percent interest compounded annually, which accumulated to \$31,449,513 at June 30, 2008
- Repayment of HUD's equity investment of \$16,276,340 plus interest at 6 percent compounded annually. At June 30, 2008, this amount totaled \$29,010,951.
- Any remaining distribution to the City to fund programs that benefit low- and moderate-income residents

If the distributions are the result of a sale or refinancing of the project or a portion of the project, then the distribution first repays the mortgage, next equally pays the City's and HUD's equity investments, and finally pays the City for programs that benefit low- and moderate-income residents.

Required Supplemental Information

City of Taylor, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 7,635,264	\$ 7,635,264	\$ 7,635,264	\$ -
Revenue				
Property taxes	32,361,700	32,491,700	32,793,147	301,447
Federal sources	326,800	434,700	480,587	45,887
State sources	311,300	388,700	362,498	(26,202)
State-shared revenue	7,687,250	7,803,500	7,804,529	1,029
Fees and permits	817,000	886,100	957,454	71,354
Fines and forfeitures	5,545,800	6,568,500	6,707,153	138,653
Charges for services	2,650,500	2,810,600	2,792,046	(18,554)
Charges to other funds	6,693,800	7,014,400	7,352,806	338,406
Interest income and rents	1,111,800	1,157,500	1,366,821	209,321
Other	2,029,100	1,752,200	4,033,327	2,281,127
Transfers from other funds	350,000	-	248,500	248,500
Proceeds from installment loans	-	-	413,074	413,074
Total revenue	59,885,050	61,307,900	65,311,942	4,004,042
Expenditures				
General government	6,851,945	7,932,700	7,611,797	320,903
Public safety	21,222,960	21,623,200	21,512,411	110,789
Public works*	14,490,704	15,371,900	13,762,634	1,609,266
Recreation and culture	2,733,680	3,098,000	2,697,807	400,193
General administration	862,000	1,406,400	833,593	572,807
Employee benefits	13,796,952	13,351,800	12,756,903	594,897
Total expenditures	59,958,241	62,784,000	59,175,145	3,608,855
Fund Balance - End of year	\$ 7,562,073	\$ 6,159,164	\$ 13,772,061	\$ 7,612,897

* Public works includes debt service payments, which are included in debt service in the governmental fund statement of revenue, expenditures, and changes in fund balances for the year ended June 30, 2008.

City of Taylor, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2008 (dollar amounts in millions)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
Police and Fire Retirement System						
06/30/02	\$ 108.0	\$ 110.5	\$ 2.5	97.7	\$ 10.6	23.6
06/30/03	104.0	113.0	9.0	92.0	10.6	85.1
06/30/04	100.4	117.1	16.7	85.7	11.2	149.6
06/30/05	99.0	123.4	24.4	80.2	12.6	193.6
06/30/06	100.0	132.7	32.7	75.3	13.4	242.9
06/30/07	105.3	138.9	33.6	75.8	14.3	236.0
General Employees' Retirement System						
12/31/02	\$ 57.3	\$ 57.3	\$ -	100	\$ 10.3	-
12/31/03	55.5	55.5	-	100	10.1	-
12/31/04	54.1	54.1	-	100	10.3	-
12/31/05	52.8	52.8	-	100	10.1	-
12/31/06*	49.4	64.8	15.4	76	8.4	183.3
12/31/07*	51.6	67.4	15.8	77	8.1	195.1

*Reflects entry age normal actuarial cost method

City of Taylor, Michigan

Required Supplemental Information Schedule of Employer Contributions June 30, 2008

Police and Fire Retirement System

Year Ended June 30	Valuation Date June 30	Annual Required Contribution	Percentage Contributed
2003	2001	\$ 1,258,709	100
2004	2002	2,000,194	100
2005	2003	2,497,495	100
2006	2004	2,943,025	100
2007	2005	4,023,065	100
2008	2006	4,977,904	100

General Employees' Retirement System

Year Ended December 31	Valuation Date December 31	Annual Required Contribution	Percentage Contributed
2002	2000	\$ -	100
2003	2001	641,358	100
2004	2002	1,133,342	100
2005	2003	1,122,958	100
2006	2004	1,508,514	100
2007	2005	2,086,320	100

City of Taylor, Michigan

Required Supplemental Information Schedule of Employer Contributions (Continued) June 30, 2008

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2007 (Police and Fire Retirement System) and December 31, 2007 (General Employees' Pension Plan), the latest actuarial valuation dates, follows:

	Police and Fire Retirement System	General Employees' Pension Plan
Actuarial cost method	Individual entry age	Aggregate
Amortization method	Level percent of payroll	Level dollar, closed
Remaining amortization period	20 years	10 years
Asset valuation method	4-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.6%	8.0%
Projected salary increases*	5.1%-8.0%	2.5%
*Includes inflation at	5.0%	2.5%
Cost of living adjustments	None	None

City of Taylor, Michigan

Note to Required Supplemental Information June 30, 2008

Note - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General Fund are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in funds balance):

	General Fund - Total Revenue
Amounts per operating statement	\$ 64,650,368
Other financing sources budgeted as revenues	<u>661,574</u>
Amounts per budget statement	<u>\$ 65,311,942</u>

Other Supplemental Information

City of Taylor, Michigan

Special Revenue Funds

	Major Streets	Local Streets	Police Forfeiture	Treasury Forfeiture	Justice Forfeiture	Community Development Block Grant	Building Department	1996 Voted Levy
Assets								
Cash and investments	\$ 674,823	\$ 264,380	\$ 513,350	\$ 95,898	\$ 950,785	\$ -	\$ 88,827	\$ 1,733,007
Accounts receivable:								
Taxes	-	-	-	-	-	-	-	5,930
Special assessments	-	1,488	-	-	-	-	-	-
Other	-	-	-	-	241,080	-	-	-
Due from other governmental units	465,556	164,291	-	11,813	-	97,334	-	-
Due from component units	9,916	-	-	-	-	-	-	8,767
Due from other funds	-	175,845	-	2,109	-	-	-	218,485
Prepaid expenses and other assets	-	-	13,926	-	-	-	-	-
Restricted assets	-	-	-	-	-	-	-	-
Total assets	<u>\$ 1,150,295</u>	<u>\$ 606,004</u>	<u>\$ 527,276</u>	<u>\$ 109,820</u>	<u>\$ 1,191,865</u>	<u>\$ 97,334</u>	<u>\$ 88,827</u>	<u>\$ 1,966,189</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 85,082	\$ -	\$ 157,300	\$ -	\$ 81,609	\$ 31,966	\$ 3,643	\$ 20,402
Due to other governmental units	-	-	6,036	-	5,777	-	-	6,223
Due to other funds	219,803	303,443	16,607	-	19,333	65,368	83,031	43,379
Due to component units	115	-	-	-	-	-	-	-
Accrued and other liabilities	-	-	18,263	-	-	-	2,153	63,756
Deferred revenue	-	1,486	-	-	-	-	-	-
Long-term advances from other funds	118,372	-	-	-	-	-	-	-
Total liabilities	423,372	304,929	198,206	-	106,719	97,334	88,827	133,760
Fund Balances								
Reserved for construction and other expenditures	-	-	-	-	-	-	-	-
Unreserved - Designated for subsequent year's expenditures	132,300	-	80,000	-	821,300	-	-	66,800
Unreserved - Undesignated	594,623	301,075	249,070	109,820	263,846	-	-	1,765,629
Total fund balances	726,923	301,075	329,070	109,820	1,085,146	-	-	1,832,429
Total liabilities and fund balances	<u>\$ 1,150,295</u>	<u>\$ 606,004</u>	<u>\$ 527,276</u>	<u>\$ 109,820</u>	<u>\$ 1,191,865</u>	<u>\$ 97,334</u>	<u>\$ 88,827</u>	<u>\$ 1,966,189</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

Special Revenue Funds			Debt Service Funds					Capital Projects Fund		
DARE/ GREAT	Tree Replacement Fund	2005 BRDA Debt	General Obligation Debt	Taylor Building Authority Debt	1996 Michigan Transportation Fund Bond	DMA/ 911 Debt	2004 LTGO Capital Improvement Bond Fund	2008 MI Transportation Bond Construction Fund	Total Nonmajor Governmental Funds	
\$ 58,459	\$ 14,570	\$ 498,767	\$ 3,116	\$ 41,234	\$ 326,533	\$ 480,260	\$ 74,814	\$ -	\$ 5,818,823	
-	-	-	-	-	-	-	-	-	5,930	
-	-	-	-	-	-	-	-	-	1,488	
-	-	-	-	-	-	-	-	-	241,080	
-	-	-	-	-	-	-	-	-	738,994	
-	-	1,300	-	-	-	-	-	-	19,983	
-	-	-	-	-	-	-	47,447	10,913	454,799	
-	-	-	-	-	-	-	-	-	13,926	
-	-	-	-	-	-	506,069	-	3,058,039	3,564,108	
\$ 58,459	\$ 14,570	\$ 500,067	\$ 3,116	\$ 41,234	\$ 326,533	\$ 986,329	\$ 122,261	\$ 3,068,952	\$ 10,859,131	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 334	\$ 380,336	
-	-	-	-	-	-	-	-	-	18,036	
525	-	-	-	-	-	-	116,980	1,197	869,666	
-	-	-	-	-	-	-	-	-	115	
57,934	-	-	-	-	-	-	-	-	142,106	
-	-	-	-	-	-	-	-	-	1,486	
-	-	-	-	-	-	-	-	-	118,372	
58,459	-	-	-	-	-	-	116,980	1,531	1,530,117	
-	14,570	-	-	-	-	-	5,281	3,067,421	3,087,272	
-	-	-	-	-	-	-	-	-	1,100,400	
-	-	500,067	3,116	41,234	326,533	986,329	-	-	5,141,342	
-	14,570	500,067	3,116	41,234	326,533	986,329	5,281	3,067,421	9,329,014	
\$ 58,459	\$ 14,570	\$ 500,067	\$ 3,116	\$ 41,234	\$ 326,533	\$ 986,329	\$ 122,261	\$ 3,068,952	\$ 10,859,131	

City of Taylor, Michigan

Special Revenue Funds								
	Major Streets	Local Streets	Police Forfeiture	Treasury Forfeiture	Justice Forfeiture	Community Development Block Grant	Building Department	1996 Voted Levy
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,682,851
Licenses and permits	-	-	-	-	-	-	1,264,473	-
Federal sources	-	-	-	102,044	1,086,999	528,185	-	-
State sources	2,850,993	1,002,619	210,825	-	-	-	-	-
Interest and rent	27,401	23,566	17,780	757	11,677	-	3,639	71,505
DMA/911 revenue	-	-	-	-	-	-	-	-
Other	74,354	1,098	-	-	-	-	-	-
Total revenues	2,952,748	1,027,283	228,605	102,801	1,098,676	528,185	1,268,112	1,754,356
Expenditures								
Current:								
Public works and capital projects	1,058,274	2,075,293	-	-	-	-	1,268,112	-
Community development	-	-	-	-	-	528,185	-	-
Construction and development	545,546	135,289	-	-	-	-	-	1,117,861
Capital outlay and other	12,498	10,137	270,364	-	209,353	-	-	-
Debt service	32,056	26,256	-	-	-	-	-	568,950
Total expenditures	1,648,374	2,246,975	270,364	-	209,353	528,185	1,268,112	1,686,811
Excess of Revenues Over (Under) Expenditures	1,304,374	(1,219,692)	(41,759)	102,801	889,323	-	-	67,545
Other Financing Sources (Uses)								
Transfers in	109,064	696,030	-	-	-	-	-	-
Transfers out	(1,010,930)	-	-	-	-	-	-	-
Proceeds from issuance of debt	-	-	-	-	-	-	-	-
Debt premium	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(901,866)	696,030	-	-	-	-	-	-
Net Change in Fund Balance	402,508	(523,662)	(41,759)	102,801	889,323	-	-	67,545
Fund Balances - Beginning of year	324,415	824,737	370,829	7,019	195,823	-	-	1,764,884
Fund Balances - End of year	\$ 726,923	\$ 301,075	\$ 329,070	\$ 109,820	\$ 1,085,146	\$ -	\$ -	\$ 1,832,429

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2008

Special Revenue Funds		Debt Service Funds					Capital Projects Fund		
							2004 LTGO	2008 MI	
DARE/ GREAT	Tree Replacement Fund	2005 BRDA Debt	General Obligation Debt	Taylor Building Authority Debt	1996 Michigan Transportation Fund Bond	DMA/ 911 Debt	Capital Improvement Bond Fund	Transportation Bond Construction Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,682,851
-	-	-	-	-	-	-	-	-	1,264,473
-	-	-	-	-	-	-	-	-	1,717,228
-	-	-	-	-	-	-	-	-	4,064,437
2,415	560	6,340	155	2,869,653	5,754	35,121	5,281	5,651	3,087,255
-	-	-	-	-	-	1,266,081	-	-	1,266,081
-	-	322,211	-	-	-	-	-	-	397,663
2,415	560	328,551	155	2,869,653	5,754	1,301,202	5,281	5,651	13,479,988
-	-	-	-	-	-	-	-	-	4,401,679
-	-	-	-	-	-	-	-	-	528,185
-	-	-	-	-	-	-	-	65,537	1,864,233
2,415	-	-	-	-	-	158,982	-	-	663,749
-	-	-	283	2,863,235	326,738	989,721	-	-	4,807,239
2,415	-	-	283	2,863,235	326,738	1,148,703	-	65,537	12,265,085
-	560	328,551	(128)	6,418	(320,984)	152,499	5,281	(59,886)	1,214,903
-	-	-	-	-	314,900	-	-	-	1,119,994
-	-	-	-	-	-	-	-	(109,064)	(1,119,994)
-	-	-	-	-	-	-	-	3,075,000	3,075,000
-	-	-	-	-	-	-	-	161,371	161,371
-	-	-	-	-	314,900	-	-	3,127,307	3,236,371
-	560	328,551	(128)	6,418	(6,084)	152,499	5,281	3,067,421	4,451,274
-	14,010	171,516	3,244	34,816	332,617	833,830	-	-	4,877,740
\$ -	\$ 14,570	\$ 500,067	\$ 3,116	\$ 41,234	\$ 326,533	\$ 986,329	\$ 5,281	\$ 3,067,421	\$ 9,329,014

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2008

	Trust Funds			Agency Funds		
	Pension and Other Employee Benefit Plans					
	General		Total	23rd District		Total
	Police and Fire Retirement System	Employees' Pension Plan*		Tax Receiving	Court	
Assets						
Cash and equivalents	\$ 9,763,748	\$ 2,807,265	\$ 12,571,013	\$ 515,224	\$ 46,827	\$ 562,051
Investments:						
Corporate bonds	10,992,384	7,854,045	18,846,429	-	-	-
U.S. government securities	11,260,526	10,182,245	21,442,771	-	-	-
Common and preferred stock	41,142,511	30,392,214	71,534,725	-	-	-
Money market	-	-	-	-	727,000	727,000
Mutual funds	25,781,196	-	25,781,196	-	-	-
Other assets	-	32,368	32,368	-	-	-
Due from other governmental units	-	-	-	174,692	-	174,692
Due from primary government	64,594	7,127	71,721	-	-	-
Accrued interest	304,089	237,822	541,911	-	-	-
Total assets	99,309,048	51,513,086	150,822,134	<u>\$ 689,916</u>	<u>\$ 773,827</u>	<u>\$ 1,463,743</u>
Liabilities						
Accounts payable	-	-	-	\$ 9,200	\$ -	\$ 9,200
Due to other governmental units	-	-	-	626,554	773,827	1,400,381
Tax collections distributable	-	-	-	54,162	-	54,162
Total liabilities	-	-	-	<u>\$ 689,916</u>	<u>\$ 773,827</u>	<u>\$ 1,463,743</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 99,309,048</u>	<u>\$ 51,513,086</u>	<u>\$ 150,822,134</u>			

* Balances are as of December 31, 2007

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2008

	Police and Fire Retirement System	General Employees' Pension Plan*	Total
Additions			
Investment income (loss):			
Interest and dividends	\$ 2,684,893	\$ 1,532,150	\$ 4,217,043
Net (decrease) increase in fair value of investments	(9,570,738)	2,964,667	(6,606,071)
Less investment expenses	<u>(196,987)</u>	<u>(276,137)</u>	<u>(473,124)</u>
Net investment (loss) income	(7,082,832)	4,220,680	(2,862,152)
Contributions:			
Employer	4,977,904	2,086,320	7,064,224
Employee	<u>736,306</u>	<u>425,845</u>	<u>1,162,151</u>
Total contributions	<u>5,714,210</u>	<u>2,512,165</u>	<u>8,226,375</u>
Total additions - Net of investment expenses	(1,368,622)	6,732,845	5,364,223
Deductions			
General and administrative	66,868	115,123	181,991
Benefit payments	<u>8,471,790</u>	<u>4,822,474</u>	<u>13,294,264</u>
Total deductions	<u>8,538,658</u>	<u>4,937,597</u>	<u>13,476,255</u>
Net (Decrease) Increase in Net Assets	(9,907,280)	1,795,248	(8,112,032)
Net Assets Held in Trust for Pension and Other Employee Benefits			
Beginning of year	<u>109,216,328</u>	<u>49,717,838</u>	<u>158,934,166</u>
End of year	<u><u>\$ 99,309,048</u></u>	<u><u>\$ 51,513,086</u></u>	<u><u>\$ 150,822,134</u></u>

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Net Assets Component Unit - Housing Commission June 30, 2008

	Housing Commission*	Taylor Community Development Corporation*	Total
Assets			
Cash and investments	\$ 2,887,763	\$ 1,587,299	\$ 4,475,062
Due from other governmental units	-	4,197	4,197
Accounts receivable	1,040	220,188	221,228
Deferred charges	-	5,883,510	5,883,510
Prepaid expenses and other assets	10,158	672,616	682,774
Restricted assets	-	2,773,166	2,773,166
Notes receivable and accrued interest	50,000	-	50,000
Capital assets	2,428,893	25,006,468	27,435,361
Total assets	5,377,854	36,147,444	41,525,298
Liabilities			
Accounts payable	20,598	832,472	853,070
Tenant security deposits	29,343	356,350	385,693
Accrued liabilities and other	17,629	669,272	686,901
Long-term debt	-	28,309,464	28,309,464
Total liabilities	67,570	30,167,558	30,235,128
Net Assets			
Invested in capital assets - Net of related debt	2,478,893	2,611,970	5,090,863
Restricted	2,364,025	2,901,433	5,265,458
Unrestricted	467,366	466,483	933,849
Total net assets	\$ 5,310,284	\$ 5,979,886	\$ 11,290,170

* Balances are as of March 31, 2008 for the Housing Commission and as of June 30, 2008 for the Taylor Community Development Corp., its component unit.

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Component Unit - Housing Commission Year Ended June 30, 2008

	Housing Commission*	Taylor Community Development Corporation*	Total
Revenue			
Rental income	\$ 300,282	\$ 6,226,503	\$ 6,526,785
Other income	<u>6,238,731</u>	<u>4,632,149</u>	<u>10,870,880</u>
Total revenue	6,539,013	10,858,652	17,397,665
Expenditures			
General administration	391,627	2,494,305	2,885,932
Housing assistance payments	5,880,512	-	5,880,512
Utilities	143,461	2,060,645	2,204,106
Operation and maintenance	340,524	2,879,296	3,219,820
Depreciation and amortization	157,412	1,748,554	1,905,966
Other	<u>21,422</u>	<u>991,303</u>	<u>1,012,725</u>
Total expenditures	<u>6,934,958</u>	<u>10,174,103</u>	<u>17,109,061</u>
Operating (Loss) Income	(395,945)	684,549	288,604
Nonoperating Revenue (Expenses)			
Other nonoperating income	20,370	1,283,626	1,303,996
Gain on sale of property	-	84,482	84,482
Interest income	42,321	103,119	145,440
Interest expense	<u>-</u>	<u>(1,272,991)</u>	<u>(1,272,991)</u>
Total nonoperating revenue	<u>62,691</u>	<u>198,236</u>	<u>260,927</u>
Change in Net Assets	(333,254)	882,785	549,531
Net Assets - Beginning of year, as restated	<u>5,643,538</u>	<u>5,097,101</u>	<u>10,740,639</u>
Net Assets - End of year	<u>\$ 5,310,284</u>	<u>\$ 5,979,886</u>	<u>\$ 11,290,170</u>

* Balances are as of March 31, 2008 for the Housing Commission and as of June 30, 2008 for the Taylor Community Development Corp., its component unit.

City of Taylor, Michigan

**Federal Awards
Supplemental Information
June 30, 2008**

City of Taylor, Michigan

Contents

Independent Auditor's Report	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-4
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	5-6
Schedule of Expenditures of Federal Awards	7-8
Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards	9
Notes to Schedule of Expenditures of Federal Awards	10
Schedule of Findings and Questioned Costs	11-12
Summary Schedule of Prior Audit Findings	13

Independent Auditor's Report

To the Honorable Mayor
and City Council Members
City of Taylor, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Taylor, Michigan's basic financial statements, and have issued our report thereon dated December 10, 2008. Those basic financial statements are the responsibility of the management of the City of Taylor, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit. We did not audit the financial statements of the Taylor Housing Commission (a discretely presented component unit), which reflect total assets of \$41,525,298 at March 31, 2008 and a net increase in net assets of \$549,531 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Commission, is based solely on the report of the other auditors. The other auditors' report, dated December 3, 2008, which includes the information for the Taylor Community Development Corporation (audited by other auditors as of June 30, 2008 with a report date of December 1, 2008), expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Taylor, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 10, 2008



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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor
and City Council Members
City of Taylor, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Taylor, Michigan's basic financial statements, and have issued our report thereon dated December 10, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Taylor Housing Commission (a discretely presented component unit), as described in our report on the City of Taylor's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Taylor, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Taylor, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Taylor, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

To the Honorable Mayor
and City Council Members
City of Taylor, Michigan

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 08-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the deficiency described in the schedule of findings and questioned costs as item 08-01 constitutes a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Taylor, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to the management of the City of Taylor, Michigan in a separate letter dated December 10, 2008.

The City of Taylor, Michigan's response to the material weakness identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

To the Honorable Mayor
and City Council Members
City of Taylor, Michigan

This report is intended solely for the information and use of management, the federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moren, PLLC

December 10, 2008

**Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

To the Honorable Mayor
and City Council Members
City of Taylor, Michigan

Compliance

We have audited the compliance of the City of Taylor, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The major federal program of the City of Taylor, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Taylor, Michigan's management. Our responsibility is to express an opinion on the City of Taylor, Michigan's compliance based on our audit.

The City of Taylor's basic financial statements include the operations of the Taylor Housing Commission (a discretely presented component unit), which received \$11,797,940 in federal awards which is not included in the schedule during the year ended June 30, 2008. Our audit described below did not include the operations of the Taylor Housing Commission because the Taylor Housing Commission engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Taylor, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Taylor, Michigan's compliance with those requirements.

In our opinion, the City of Taylor, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

To the Honorable Mayor
and City Council Members
City of Taylor, Michigan

Internal Control over Compliance

The management of the City of Taylor, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Taylor, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

December 10, 2008

City of Taylor, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Direct program - Community Development Block Grant - Entitlement Grant:				
Program year 2006 - B06-MC-26-0015	14.218	N/A	\$ 523,893	\$ 339,598
Program year 2007 - B07-MC-26-0015	14.218	N/A	520,281	<u>188,587</u>
Total U.S. Department of Housing and Urban Development				528,185
U.S. Department of Justice:				
Michigan Department of Community Health:				
23rd District Court/Taylor Drug Court Grant 10/1/06-9/30/07	16.738	72186-3-7-B	106,668	10,068
23rd District Court/Taylor Drug Court Grant 10/1/07-9/30/08	16.738	72186-4-08-B	106,668	<u>30,668</u>
Total Michigan Department of Community Health				40,736
Passed through the State of Michigan - Office of Criminal Justice - DRANO Enhancement Grant:				
State Police pass-through grant - 10/1/06-9/30/07	16.579	70978-6-07-z	37,978	4,746
State Police pass-through grant - 10/1/07-9/30/08	16.579	70978-7-08-b	34,630	<u>14,665</u>
Total Office of Criminal Justice				19,411
Bureau of Justice Assistance:				
Local Law Enforcement Block Grant:				
Passed through Downriver Community Conference - C.O.P.S.	16.710	N/A	21,167	21,167
Passed through Byrne Justice Assistance Grant/Wayne County:				
2006-F1213-MI-DJ (JAG)	16.710	N/A	16,989	16,989
2007-F2774-MI-DJ (JAG)	16.710	N/A	21,584	<u>21,584</u>
Total Local Law Enforcement Block Grant				59,740
Passed through First Step Western Wayne County Project on Domestic and Sexual Violence - STOP - Violence Against Women 10/01/07-9/30/08	16.588	STOP 08-82003-I	28,189	28,189
Bulletproof Vest Partners	16.607	OMB#1121-0235	42,800	<u>290</u>
Total Bureau of Justice Assistance				88,219
Federal Equitable Sharing Program - Justice	16.unknown	N/A	-	<u>209,353</u>
Total U.S. Department of Justice				357,719

City of Taylor, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Treasury:				
Organized Crime Drug Enforcement (Chiefs Task Force)				
12/1/07-9/30/08	21.unknown	GL-MIE-257	\$ 6,000	\$ 5,919
	21.unknown	GL-MIE-351	6,000	6,098
	21.unknown	GL-MIE-391	6,000	<u>5,964</u>
Total Organized Crime Drug Enforcement				17,981
U.S. Custom Service Outbound Currency Task Force	21.unknown	N/A	-	<u>21,865</u>
Total U.S. Department of Treasury				39,846
U.S. Department of Transportation - Federal Aid to Urban Systems (FAUS) - Passed through Michigan Department of Transportation:				
Eureka/Racho Road Beautification - Project #51024A	20.205	STP-9982 (080)	-	20,822
Michigan State Police - Office of Highway Safety Planning:				
OUIL & Seat Belt Grant 10/1/06-9/30/07	20.600	PT-07-24	33,643	12,797
OUIL & Seat Belt Grant 10/1/07-9/30/08	20.600	PT-08-05	40,000	22,702
Federal Highway Administration - Demonstration and Evaluation of Rational Speed Limits	20.205	DTFH61-03-H-00130	50,000	<u>24,464</u>
Total U.S. Department of Transportation				80,785
U.S. Department of Homeland Security - Wayne County Homeland Security & Emergency Management Program II Training Grant - Passed through Wayne County to Taylor Police Department - CBERN	97.004	N/A	37,874	<u>37,874</u>
Total federal awards				<u>\$ 1,044,409</u>

City of Taylor, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 2,218,637
Federal expenditures reported on the SEFA, but revenue not received within the current period:	
Organized Crime Drug Enforcement - Chief's Task Force	1,435
OUIL & Seat Belt Grant	16,086
Federal Highway Administration - Speed Limits Grant	14,326
Bulletproof Vest Partners	290
Federal revenue reported on financial statements, but not expended in the current period:	
Federal Forfeiture Justice Funds	(877,646)
Federal Forfeiture Treasury Funds	(102,044)
U.S. Custom Service Outbound Currency Task Force	(1,654)
OUIL & Seat Belt Grant	(6,086)
Homeland Security & Emergency Management	(39,980)
Federal Highway Administration - Speed Limits Grant	(5,480)
Revenues reported on the financial statements, but not from federal sources	<u>(173,475)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 1,044,409</u>

City of Taylor, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Taylor, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount	
		Provided to Subrecipients	
Community Development Block Grant	14.218	\$	51,645

Note 3 - Contingent Liability

The City of Taylor, Michigan receives numerous federal grants. Each grant has compliance requirements which are subject to review by the granting agency before the grant is closed. The City has been contacted by the Environmental Protection Agency that there may be questioned costs in the amount of approximately \$190,000 related to the Brownfield Cleanup Revolving Loan Pilot CFDA #66.811.

City of Taylor, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Taylor, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings

Reference Number	Findings
08-01	<p>Adjustments related to the fund level statements</p> <p>Finding Type - Material weakness</p> <p>Criteria - Management's goal was to accurately record adjustments for the fund level statements.</p> <p>Condition - Journal entries were necessary to adjust various account balances in order to properly state them as of June 30, 2008.</p> <p>Context - These entries were made to various funds to properly reflect current year activity. The adjustments affected fund balance classification, cash, long-term debt, and accounts receivable.</p> <p>Cause - For certain financial statement accounts, the City did not have a system in place to ensure that year-end balances agree to detail and are properly stated.</p> <p>Effect - As a result of these transactions not being properly recorded, several accounts were misstated as of June 30, 2008.</p> <p>Recommendation - The City of Taylor, Michigan should develop controls to ensure that all appropriate journal entries are made so that ending balances are correct.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City of Taylor, Michigan concurs with the recommendation and will put a process in place to address the issue.</p>

Section III - Federal Program Audit Findings

None

City of Taylor, Michigan

Summary Schedule of Prior Audit Findings Year Ended June 30, 2008

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
2007	07-03	Under Davis-Bacon regulations, the City of Taylor, Michigan is required to perform job site interviews for laborers performing construction contract work. A job site interview was not completed for a park signage construction project due to a scheduling conflict.	14.218	None	The CDBG program did not have any projects that required compliance with Davis-Bacon regulations during the current year.
2007	07-04	The City of Taylor, Michigan is required to spend federal dollars in a reasonable time frame from the time in which the advance funds are requested. As of December 10, 2007, the City of Taylor, Michigan had yet to spend all the money drawn down on June 3, 2005.	66.811	None	Based on review of client documentation, information provided for the 2007 federal awards audit was not complete. All the funds were truly spent as of the previous year's opinion date.
2007	07-05	The City of Taylor, Michigan is required to submit quarterly reports to the Environmental Protection Agency. In addition, the City of Taylor, Michigan is also required to submit a financial status report within 90 days after fiscal year end. The 12/31/06, 3/31/07, and 6/30/07 quarterly reports as well as the annual report were not submitted timely.	66.811	None	Due to the fact that no federal dollars were spent in the current year, no reports were required.

December 10, 2008

To the Honorable Mayor and
Members of the City Council
City of Taylor
23555 Goddard Road
Taylor, MI 48180

Dear Mayor and City Council Members:

We recently completed our audit of the financial statements of the City of Taylor (the "City") for the year ended June 30, 2008. As a result of our audit, we offer the following comments and observations for your review and consideration:

Overview of the City's Financial Condition and Current Economic Climate

General Fund

As everyone is aware, the current national and local economic climate continues to be extremely challenging for businesses and communities. The City of Taylor will continue to face revenue restrictions/reductions for Headlee, Proposal A caps, and taxable value assessments related to property taxes and revenue-sharing payments received from the State of Michigan. The current revenue challenges are directly reflected in the City's 2008/2009 fiscal year budget where approximately \$1,324,000 of prior year's fund balance is expected to be needed to balance the budget based on information provided by the City Finance Department as of the date of this letter. This use of existing resources to balance the 2008/2009 budget will further reduce the overall cumulative fund balance of the City. Furthermore, along with the structural financial challenges for 2008/2009, healthcare costs and actuarial required pension contributions continue to significantly outpace the rate of inflation. As a result and consistent with prior year's comments, there continues to be a critical need for City management and Council to work together and objectively assess the level of community services currently provided, including the associated cost of those services. In particular, because labor-related expenses, including fringes, comprise such a significant portion of the overall recurring operating expenses, they must continually be evaluated to assess the City's current and future ability to pay for these costs. Lastly, because the larger recurring revenue sources are generally limited to inflationary increases and certain less controllable expenses such as utilities, pension (for benefits previously awarded by past contracts), health care, etc. have recurring annual increases which outpace inflation, increases to other more controllable expenses need to be minimized to keep the City's operations viable.

As City management and Council are aware, it continues to be imperative that an adequate level of available fund balance be maintained to enable management to adjust to both expected and unanticipated financial challenges, such as the City of Taylor and other Michigan communities are currently experiencing. An adequate level of fund balance positions the City to address negative financial changes without significantly disrupting the level of services provided to citizens or the City's ability to fund future obligations. We encourage the mayor and Council to continue to actively monitor the financial position of the City to achieve budgeted results and develop a plan for achieving targeted General Fund fund balance levels over a reasonable future time frame.

Recreational Proprietary Funds

The Golf Courses Fund continues to operate at a deficit on an annual fiscal year basis. Even after adjusting for noncash outlays such as depreciation, this fund does not independently generate sufficient cash flows to fund operations, debt service requirements, and capital improvement needs. During 2007/2008, the TIFA made the second payment totaling \$300,000 under a longer-term agreement to reimburse the Golf Courses Fund for previous capital asset purchases. The funds received from this payment were used to repay a portion of a long-term advance from the General Fund, which has a remaining balance owed to it totaling \$850,000 at June 30, 2008. We also encourage the City to consider charging a reasonable interest rate to the Golf Course Fund for the loan payable balance owed to the General Fund.

Financial Forecasts

As mentioned in previous Council meetings and in consideration of the City's financial position and the current negative economic business climate, we once again strongly recommend the City create/update its three- to five-year operating plan and financial forecast that would include alternative scenarios the City could expect to encounter. The following are examples of different situations that will arise:

- Expected changes in employee workforce (contract expirations, renegotiations, attrition, etc.), including the projected costs of any employee labor contract adjustments
- The declining level of state-shared revenue received including the vulnerability of the statutory portion of state-shared revenue
- The expected levels of targeted capital and infrastructure expenditures including future debt service requirements
- The restricted growth of future property tax revenues
- Evaluating the City's ability to provide future services consistent with today's level

Considering the current economic climate and related revenue restrictions, certain deferred maintenance projects and capital outlay constraints, future debt service commitments related to the road, facility and infrastructure reconstruction programs, the development of an operating plan and cash flow forecast is imperative. The City must critically assess all future costs on an ability-to-pay basis. Strong consideration should be given to identifying the recurring dedicated revenue sources that will support all budgeted cost increases. By preparing plans under different scenarios, the City would be better equipped to respond to expected and unexpected short-term and long-term financial constraints.

Statement on Auditing Standards No. 112

Beginning with last year's audit, United States auditing standards require auditors to communicate matters to the City's governing body that may be useful in its oversight of the City's financial management. Specifically, the standards require us to report to the governing body internal control issues (even those that may be relatively minor), in order to allow the governing body to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have frequently been discussed orally with City management in the past. One purpose of these new standards is to allow the governing body an opportunity to discuss issues even when they are relatively minor, rather than waiting until they become more serious problems.

In planning and performing our audit for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our observations and comments regarding the City's internal controls, including any significant deficiencies and/or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. This report is included in the federal awards supplemental information (the single audit report), and we recommend that the matters we have noted there receive your careful consideration. These matters are also summarized below:

- Adjusting journal entries were necessary to adjust various account balances in the fund level statements in order to properly present them as of June 30, 2008.

We consider the following to be control deficiencies:

- **Payroll Report Review** - During the year, the City began using a third party to process payroll. It came to our attention that while the finance director reviews payroll accounts and payroll reports upon posting each payroll's entry, there is no review of the hours input given to the third party to the hours output received by the third party for each pay. We recommend that the City include in its payroll process periodic reviews of this information, on a sample basis, to aid in detecting potential errors.
- **Overpayment of Taxes Remitted** - We noted during our testing that the City overpaid both the County and the schools during the remittance of property taxes. While the City's controls identified the overpayment and a receivable was properly recorded at year end, we recommend that the City put procedures in place to prevent overpayments from occurring.
- **Community Development Block Grant** - During our testing of federal awards, we noted the following items related to the administration of the CDBG programs. In accordance with OMB Circular A-133, the City is required to provide a letter to all subrecipients to whom the City has awarded funds; however, the letter sent failed to include the CFDA number for the grant. The City should update future letters to include this necessary information. We also noted that the grant requires the City to obtain and review A-133 reports for all subrecipients and maintain them as evidence that the compliance requirement has been satisfied. This was not consistently done for all subrecipients in the current year. The City did send out letters requesting the subrecipients to furnish the reports; however, the City did not have procedures in place to follow up and ensure that all reports were received. Lastly, we noted that the City was not able to provide evidence that it reviewed the EPLS website to ensure that possible vendors are not suspended or debarred. We recommend that when this is done, the City print its search results to maintain as evidence.

In addition to the above items, we have identified additional matters that we would like to communicate as a result of our audit. These matters are not considered to be significant deficiencies or material internal control weaknesses.

- **Ticket Control - Police Department and District Court** - We have included this year's comments and recommendations with respect to ticket control procedures in a separate letter dated December 4, 2008 to the District Court administrator, Ms. Vicki Bowman.
- **Bid Procedures** - Upon review of purchases requiring bidding to be performed, we noted that many items did not go out to bid because a "sole source" vendor was used. We suggest that Council and other approvers question and ensure that it is reasonable for the item being purchased to have a sole source, as the City's Charter specifically addresses the dollar threshold for items that require open bids.
- **Council Review** - The City sends budget to actual reports and check runs for the General Fund to Council for review. However, the Water and Sewer Department writes checks as well and these are not approved by Council. In addition, budget to actual reports for all other budgeted funds of the City are not reviewed by Council. We recommend that the City regularly send all check runs and budget to actual statements for all budgeted funds to Council for review.
- **Taylor Sportsplex** - During the prior year, the City entered into a lease agreement with a third-party management company, Rink Management. We recommend that the City regularly follow procedures to ensure that periodic financial information is received from Rink Management and reviewed. The lease stipulates various clauses regarding what revenue the City is able to receive. It is important that the City ensure that the revenue it receives from the lease does not jeopardize the tax-exempt status of the bond which funded the building of the facility. Therefore, we encourage the City to update the tax-exempt calculation provided by the attorney, at least annually.
- **Investment Policy** - The City has adopted an investment policy as required by Public Act 196 of 1997. Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. This Act previously required investment reporting annually. Public Act 196 of 1997 required the City to present investment reports for the last three quarters of the fiscal year. We encourage management to present the investment report to the Council in a timely manner in the future to be in compliance with the Public Act and to allow for potential changes in investments if warranted. Council minutes documentation should reflect receipt and review of the quarterly investment information.

Public Safety and General Employee Benefit Plans

Funding - During our review of the police and fire retirement system, we noted that the overall funded ratio has continued to significantly decrease, going from 97.7 percent to 75.8 percent during the period from June 30, 2002 through June 30, 2008. While the system's funding ratio has decreased, the City's contribution has grown at a high rate, increasing from approximately \$579,000 for the fiscal year ended 2002 to an expected contribution of approximately \$5,483,000 for the fiscal year ending 2009. This represents an increase of 847 percent over the past seven years (average of 121 percent per year). In addition, the cost of health care for public safety employees has more than doubled since 2001.

For general employees, the required pension contribution has also significantly increased from \$0 in 2002 to approximately \$2,086,000 for the year ended June 30, 2008.

Additionally, due to a dramatic decline in the investment values during 2008, the unfunded actuarial liabilities for both benefit plans will significantly increase, causing even more of an increase to the required employer contributions in future years. See the table below for example information from the police and fire retirement system:

	As of June 30, 2007	As of October 31, 2008
Actuarial Value of Assets (in dollars)	\$105,000,000	\$86,000,000
Actuarial Accrued Liability (in dollars)	\$139,000,000	\$139,000,000*
Unfunded Liability (Assets less Liabilities)	(\$34,000,000)	(\$53,000,000)
Unfunded percentage	76%	62%

*Latest available information with respect to the actuarial accrued liability which is June 30, 2007

Based on the above example, decreasing the value of the assets based on the actual investment losses incurred and conservatively assuming the liability value remained unchanged from the June 30, 2007 actuarial valuation (the most recent valuation), the unfunded percentage of liabilities decreased 14 percent (from 76 percent to 62 percent).

City management and Council need to critically assess all employee benefit plans (pension and retiree health care). This assessment must include an objective evaluation of benefits currently offered, the ability to continue to offer the current benefit package, recent plan investment performance, projected future millage increases (if applicable) to fund benefit costs, and an overall analysis of the City's ability to control costs and pay for future benefits.

We also once again recommend that a summary of pension plan investment activities for public safety and general employee plans be provided to City management and Council on an annual or semiannual basis. This will allow for a review of investment results and the ability to identify performance improvement opportunities and alternatives to help reduce the overall cost of the plans.

Other Matters - In addition, for the police and fire retirement system, we noted that there is not an independent review performed of the information that is submitted to the actuary. We recommend that the budget and finance department perform this review to ensure that the information submitted is accurate and complete.

Legislative Items

State-shared Revenue

The governor initially released her proposal of the State's fiscal year 2009 budget (for the year ending September 30, 2009) in February 2008. Over the course of budget deliberations in the spring and early summer, the legislature further debated the level of revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ended September 30, 2008) amounts, plus an increase of 2 percent in the statutory portion of revenue sharing received in fiscal year 2007. This proposal was presented to the governor on July 25, 2008 and was enacted in August 2008.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% change
Cities, Villages and Townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	404.920	392.050	406.933	3.80%
total to CVT's	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	-	-	2.394	n/a
Total revenue sharing	\$ 1,070.900	\$ 1,074.830	\$ 1,085.319	0.98%

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in FY 2009 to equal the total of constitutional and statutory revenue sharing received in FY 2008, plus an additional payment equal to 2 percent of the FY 2007 statutory revenue sharing received by the local unit. We are awaiting a final distribution table from the Michigan Department of Treasury.

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

The table below details state-shared revenue for the City since 2000 broken out by statutory and constitutional portions.

State Fiscal Year	Statutory	Constitutional	Total	Cumulative Decrease from 2000
2000	\$5,389,735	\$4,800,080	\$10,189,815	\$ -
2001	5,941,001	4,274,319	10,215,320	25,505
2002	5,407,278	4,317,858	9,725,136	(439,174)
2003	4,758,632	4,390,958	9,149,590	(1,479,399)
2004	3,879,957	4,343,263	8,223,220	(3,445,994)
2005	3,686,673	4,446,914	8,133,587	(5,502,222)
2006	3,520,464	4,522,623	8,043,087	(7,648,950)
2007	3,374,916	4,428,648	7,803,564	(10,035,201)
2008	3,227,056	4,576,508	7,803,564	(12,421,452)
2009 est.	3,375,818	4,495,244	7,871,062	(14,740,205)

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$3,376,000 at risk in its General Fund budget based on 2009 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the "pop-up" or "uncapping" of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The "pop-up" or "uncapping" of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.
- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have relearned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it re-connects with market values).

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called "change in market value," needs to be added to the Proposal A formula. In what some are calling a "super cap," the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. To date, a proposal to accomplish this change has not moved through the legislature. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the six mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with "hold harmless" school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.
- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e., street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a court of appeals ruling that the installation of public service improvements does not constitute a taxable addition.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund (MSF) to their Local Street Fund (LSF) at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

In the current instructions to the Act 51 reports, MDOT has stipulated that these transfers from the MSF to the LSF will not be allowed after December 31, 2008, except to the extent matched by local revenues expended by the city or village of the major street system. We have received oral confirmation from MDOT that, since the actual legislation (MCL Section 247.663(12) of PA 51 of 1951, as amended) does not stipulate the expiration of these transfers, MDOT will not be enforcing this provision as it reads in the Act 51 instructions.

FACT Act - Potential Impact on Municipal Utility Systems

The Fair and Accurate Credit Transactions Act was passed in 2003, with final regulations published at the end of 2007. These Federal Trade Commission (FTC) rules, and more specifically the Red Flag Rules encompassed in them, may be applicable to municipal utility systems. The rules, put in place as a measure to protect against identify theft, indicate that a “creditor” with a “covered account” must implement a written identify theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of a covered account or any existing covered account.

Under the rules, a creditor is defined very broadly, encompassing any entity that defers payment for goods and services, as defined under the Red Flag Rules. This most likely includes municipalities that “defer payments” by their utility customers when water, sewer, electric, gas, trash, and the like are sold to customers day-by-day but are paid for at the end of the billing cycle.

The act would require written policies and procedures to be put in place to identify and follow up on red flags. Red flags, just as an example, would be the presentation by the customer of suspicious personal information that is inconsistent with external sources or suspicious documents provided for identification that appear to be altered. The regulations appear to be flexible so that each government would have the ability to design an identity theft program that is tailored to its particular operation, given its size, technology currently utilized, and the perceived risk of identity theft in its community.

The FTC has granted a six-month delay of enforcement regarding these red flag rules, which previously had a November 1, 2008 required implementation date.

Other Legislative Items

- As part of Michigan’s new “Planning Enabling Act,” many local governments will now be required to prepare an annual “capital improvements program.” This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community’s judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Cities that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran, PLLC strongly encourages the development of a capital plan. While the law is restricted to “public structures and improvements,” we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishings, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as “Public Act 20” which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.
- At the federal level, a 2005 law change continues to get more attention as its effective date approaches. As part of the Tax Increase Prevention and Reconciliation Act of 2005, a new mandate was introduced which will require any governmental entity spending more than \$100 million a year in goods and services to withhold 3 percent of government payments beginning in 2011. Governmental units subject to this requirement will also be subject to new reporting rules for applicable payments. Numerous groups - both public and private sector, including the U.S. Department of Defense - have expressed concerns on the cost and practicality of implementing this new mandate. A bill is pending in Congress to delay implementation by a year until January 2012.

Postemployment Benefits

As discussed last year, there were two new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB). GASB Nos. 43 and 45 address the accounting and disclosures related to postemployment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to healthcare promises to retirees, much in the same way that pensions are handled. Starting in fiscal year 2008-2009, the City will be required to measure its retiree healthcare liability through actuarial valuations that are to be performed biannually. These valuations will compute an “annual required contribution.” The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less. City management is in the process of obtaining a final actuarial valuation with respect to postemployment benefit obligations.

To the Honorable Mayor and
Members of the City Council
City of Taylor

13

December 10, 2008

We would like to thank Mayor Priebe, Ms. Trueblood, Ms. Duha, Ms. Fair, and the entire budget and finance and treasury department staff again for their cooperation and assistance provided during the audit engagement. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in dark ink, appearing to read "D. Bohrer", with a stylized, cursive script.

Douglas G. Bohrer

A handwritten signature in dark ink, appearing to read "Wendy Trumbull", in a cursive script.

Wendy N. Trumbull